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Royal Commission on Banking and Finance

The Dominion Mortgage and Investments Assoc.
The National Housebuilders' Assoc.
Canadian Construction Assoc.

Hearings held at

OTTAWA

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I N D E X

ROYAL COMMISSION ON BANKING

AND FINANCE

Hearings held at Ottawa, Ontario, on Tuesday, October 16th, 1962.

THE COMMISSION

The Honourable Dana Harris Porter
Chief Justice of Ontario
Toronto, Ontario - Chairman

Mr. W. Thomas Brown, M.B.E.
Investment Dealer
Vancouver, British Columbia

Mr. James Douglas Gibson, O.B.E.
Banker
Toronto, Ontario

Mr. Gordon L. Harrold
Agriculturalist
Calgary, Alberta

Mr. Paul H. Leman
Corporation Executive
Montreal, Quebec

Mr. John C. MacKeen
Corporation Executive
Halifax, Nova Scotia

Dr. W.A. Mackintosh
Vice-Chancellor
Queen's University
Kingston, Ontario

Mr. H.A. Hampson - Secretary

Mr. Gilles Mercure - Joint Secretary

Ottawa, Ontario
Tuesday,
October 16th, 1962

--- At 9.15 the hearing commenced.

SUBMISSION OF

THE DOMINION MORTGAGE AND INVESTMENTS ASSOCIATION

APPEARANCES

Mr. H.P. Connor	-	President, Eastern Canada Savings and Loan Company
Mr. G.C. Norsworthy	-	Manager, Lambton Loan and Investment Company
Mr. B. Lechartier	-	General Manager, Credit Foncier Franco-Canadien
Mr. C.F. Mackenzie	-	Vice-President & General Manager, Canada Permanent Mortgage Corporation
Mr. J. Allyn Taylor President	-	Association President & President & General Manager, Huron & Erie Mortgage Corporation
Mr. J.E. Fortin	-	Association Secretary
Mr. W.F. McIlroy	-	Association Assistant

COMMISSIONER MACKINTOSH: Gentlemen, if you will please come to order. The Chairman is delayed; he will be here later.

We have representatives this morning from the Dominion Mortgage and Investments Association on behalf of their member loan companies. I understand, Mr. Taylor, you are representing them. Perhaps you

would introduce your associates, and then we would be pleased to hear any preliminary statement.

MR. TAYLOR: Thank you, Dr. Mackintosh, and gentlemen. We appreciate the opportunity of presenting this brief, which has been prepared and has been in your hands for some time. We appreciate the opportunity of coming here to answer any questions that may be put to us.

I would like to introduce the gentlemen who are appearing with me. As they say when introducing the head table, if you have any applause please hold it until all the members are introduced. That may or may not be in order, Mr. Chairman.

COMMISSIONER MACKINTOSH: We rarely have been bothered by applause.

MR. TAYLOR: On my extreme right is Mr. Connor, President, Eastern Canada Savings and Loan Company; next to him is Mr. Norsworthy, Manager, Lambton Loan and Investment Company; Mr. Lechartier, General Manager, Credit Foncier Franco-Canadian; Mr. Mackenzie, Vice-President and General Manager, Canada Permanent Mortgage Corporation; on my right is Mr. Fortin, Secretary, Dominion Mortgage and Investments Association; and Mr. McIlroy, Assistant Secretary of Dominion Mortgage and Investments Association. This is our group, sir.

I presume it would be quite untoward for me to make any speech at this time this morning. I will simply be prepared to direct questions to my colleagues in the hope that they can be answered to your satisfaction.

COMMISSIONER MACKINTOSH: Thank you, Mr. Taylor.

Our questions, which will be put to the group, will be directed to Mr. Taylor.

COMMISSIONER GIBSON: May I start with a few general questions, Mr. Chairman. Like the other Commissioners, I read this brief with much interest. One of the broad questions that occurred to me was, why have not the loan companies grown more? Their assets, which are shown on pages 56 and 57, show a somewhat slower rate of growth than most other financial institutions in this period.

If you look at their share of the mortgage business, which is shown in paragraph 58, at the bottom of page 24, you will note that their share of the mortgage business has declined quite strikingly in relation to insurance companies, and to some extent in relation to trust companies.

Do you care to make any comment on this general phenomenon.

MR. TAYLOR: Yes, Mr. Gibson. Gentlemen, as the questions are received I intend to direct them in large measure to Mr. Fortin, simply because of the great respect we all have for his knowledge of this whole field. I don't think there is anyone in Canada more knowledgeable in the field of mortgage lending than is Mr. Fortin. We believe that the purposes of the Commission can be best served by asking Mr. Fortin to answer many of these questions.

MR. FORTIN: Mr. Gibson, you have noted in the historical summary that loan companies grew, and there became quite a number of them, and then they

[illegible]

COMMISSIONER LAWSON: May I start with a few general questions, Mr. Chairman. Like the other Commissioners, I read this brief with much interest. One of the broad questions that occurred to me was, why have not the loan companies grown more? Their assets, which are shown on pages 5 and 6, show a somewhat slower rate of growth than most other financial institutions in that period.

If you look at their share of the mortgage business, which is shown in paragraph 53, at the bottom of page 24, you will see that their share of the mortgage business has declined quite strikingly in relation to other institutions, and to some extent in relation to trust companies.

If you care to make any comment on this general phenomenon.

[illegible]

... these questions are presently [illegible] related to direct [illegible]

of the great amount of all kinds of lending of this whole field. I don't think there is anyone in Canada more knowledgeable in the field of mortgage lending than is Mr. [illegible]. I believe that the purposes of the Commission can be best served by asking Mr. [illegible] to answer many of these questions.

MR. [illegible]: Mr. [illegible], you may note, in the [illegible] general summary that loan companies grew, and then became quite a [illegible], and then they

began to disappear. Essentially, the reason for their disappearance was competition in the mortgage field.

In the early years the more important of mortgage lenders was the loan companies, they having started as building and loan societies. Gradually the trust companies, for one group, began to take more interest in the mortgage business, and more latterly the life insurance companies began to be more active in the mortgage business.

The consequence was that in or around the year 1922 a great many of the smaller loan companies found that to continue to do business they had to seek and obtain trust company powers. So, those particular companies are now reflected in the trust company group.

Of course, the pattern of lending has changed in more recent years through the building and effect of the Dominion Housing Act of 1935, in which the loan companies began to participate to a small degree. With the National Housing Act coming on, you will recall that a great deal of the mortgage business for housing purposes -- that is new houses -- has been carried by the energy which the loan companies have shown in that field.

Still again, with the advent of the banks in 1954 into the new housing financing field, and once again with the large number of smaller loan companies, and many of them as provincial companies -- these are not reflected in the tables.

The mortgage business is a hard business, both to obtain money and lend it out. So that apart from what

you might call three large companies and a couple of middle-sized ones, as we knew them in the old days, they have disappeared.

That is the picture, Mr. Chairman.

COMMISSIONER GIBSON: In other words, there is no special advantage in being a loan company. You suggest that over the years a number of them have amalgamated with other people, and so on. Even in the present situation, you have some of the larger ones with close affiliations with trust companies. This is the situation, is it not?

MR. FORTIN: Yes.

COMMISSIONER GIBSON: Is it proper to regard the loan companies as a sort of separate division, or should you think of the loan and trust companies as a group?

MR. FORTIN: In that connection, Mr. Chairman, the essential difference between a loan company and a trust company is perhaps twofold: You could describe a trust company as a loan company with trust company powers.

COMMISSIONER GIBSON: That is the main difference, is it? The trust company does trust business, in addition to loan business?

MR. FORTIN: There is another difference: that is, the loan company seeks to put all of its money into mortgage loans, except that required for liquidity purposes, and as a standby pending being able to go into the mortgage business.

In other words, a loan company does not,

as a trust company or as a life company, seek to choose as between the securities market and the mortgage market. The loan company seeks to put as much as possible of its money in mortgage loans, and that is why at the end of 1960 they had about 70 to 79 per cent of their assets in mortgage loans; the trust companies, on the other hand had, shall we say, about 45 per cent.

COMMISSIONER GIBSON: This is of their own funds?

MR. FORTIN: Of their company and guaranteed funds, yes.

COMMISSIONER GIBSON: Is there any special advantage in being a loan company, and in acting that way.

MR. FORTIN: Not particularly.

COMMISSIONER GIBSON: A trust company presumably could do the same thing with its funds, if it chose to?

MR. FORTIN: Except that there are differences in the ease with which you can obtain your money. There is, for example, the view that it is easier to obtain your money by way of sale of debentures as opposed to taking money by way of guaranteed investment certificates. The type of security is different. One is easier to sell, according to some views; other people say they are just the same.

COMMISSIONER GIBSON: Essentially, there is not too much difference, is there?

MR. FORTIN: Perhaps some of the loan

company men can talk to that. I think it might be better if they did so.

MR. TAYLOR: Mr. Gibson, I think it must be acknowledged that there is no essential difference. I think the one is an extension of the powers of the other, as you put it.

MR. NORSWORTHY: Mr. Gibson, I think there is one advantage to us as a loan company in the sale of debentures. There is the general obligation, along with our savings deposits -- they rank the same as debentures. A trust company has the G.I.R.'s, and they segregate certain securities to support those G.I.R.'s. That is correct, Mr. Taylor?

MR. TAYLOR: That is correct. The guaranteed investment certificates or trust certificates have trust significance in the specific assets that are pledged.

MR. NORSWORTHY: Yes. We in our trust company issue no securities to the public, nor do we take deposits.

COMMISSIONER GIBSON: You are suggesting that the general obligation is the more attractive one?

MR. NORSWORTHY: To us, yes.

COMMISSIONER GIBSON: And to the public?

MR. NORSWORTHY: And to the public -- very much so. It may be quite local with us, but I believe it is correct to say that it has its advantages in the gathering of money.

COMMISSIONER GIBSON: This really brings us to the next point I wish to explore a little bit,

namely, your competitive position. Are you under any disadvantage from a competitive point of view? Mr. Norsworthy says the kind of deposit or the kind of debentures he may issue is an advantage over some other people's obligations. Have you any serious competitive disadvantage in relation to people with whom you are trying to compete for funds and mortgages? You mention the five-year problem, for example.

MR. FORTIN: Mr. Gibson, the ease with which debentures can be sold, or the ease with which people can be encouraged to put their money in trust through the G.I.R.'s, to my way of thinking, are just about the same across the board. To do so you have to compete with the banks, with credit unions, and with everybody who takes savings; and your weapon is the term , the rate of interest, and any other niceties which you can add as to the ease of getting your money back and so on. There is nothing I know of that is specifically against debentures or for G.I.R.'s. There are some differences. For instance, the question of transfer of guaranteed investment receipts -- whether it is as easy to transfer or whether the certificates are as easily moveable. Some companies do it one way; some the other. I personally see little difference between them. I think as far as the public is concerned they are both favourably looked upon. Mrs. Smith would prefer G.I.R.'s; Mr. Jones prefers debentures -- it is about that way.

COMMISSIONER GIBSON: The important thing is the rate of interest, the term, and so on, rather

ment, your company's position. Are you under any disadvantage from a competitive point of view [illegible] the kind of deposit or the kind [illegible] of [illegible] issue in an advantage, over some other persons or companies. Have you any serious competitive disadvantage in relation to people with whom you are trying to compete for funds and mortgages? You mention the five-year period, for example.

MR. CONNELL: Mr. Chairman, the rates which debentures [illegible] today, or the rate with which people can be encouraged to put their money in trust through the G.I.C.'s, to my way of thinking, are just about the same across the board. To do so you have to compete with the banks, with credit unions, and with everybody who takes savings [illegible] the rate of interest, and any other niceties which you can add to the ease of getting your money back and so on. There is nothing I know of that is specifically against debentures or for G.I.C.'s. There are some differences. For instance, the question of transfer of guaranteed investment receipts -- whether it is as easy to transfer or whether the certificates are as easily movable. Some companies do it one way; some the other. I personally see little difference between them. I think so far as the public is concerned they are both fairly readily accepted. Mrs. [illegible] -- it is about that way.

CHAIRMAN [illegible]: The important thing [illegible]

than the form of obligation.

MR. FORTIN: I think we must also recognize that in the case of a trust company the deposit and sale of a G.I.R. does serve as a vehicle to attract other types of business to the trust company, since the trust company has much broader powers than the loan company as to the kind of business it may carry on. If you have a depositor or a G.I.R., probably you can get the will; or, if they have any agency work to be done, you can get it. Whereas, the loan company hews to the line of mortgage loans.

COMMISSIONER GIBSON: So this is a competitive advantage over your competitors.

MR. FORTIN: You will of course appreciate that a trust company may not borrow by way of debentures. It is confined to deposits and guaranteed investment receipts. It may not issue debentures except in the Province of Quebec, where some trust companies are authorized to issue debentures, but only for the purpose of providing head office space.

COMMISSIONER GIBSON: Turning to the other side of competition, that is competition for assets, your brief puts quite a lot of emphasis on the problems of mortgages running for five-year terms, so far as the mortgagor is concerned, and the fact that you may be bound for a much longer term. This is all quite understandable to me, but it seems to me that your competitors labour under the same disadvantage, and you are faced with competition which forces you to do this. Is that correct?

[illegible]

MR. PORTER: I think we must also recognize that in the case of a trust company the deposit and sale of a G.I.C. does serve as a vehicle to attract other types of business to the trust company, since the trust company has much broader powers than the loan company as to the kind of business it may carry on. If you have a depositor or a G.I.C., probably you can get the will; or, if they have any agency work to be done, you can get it. Whereas, the loan company tends to one line of mortgage loans.

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COMMISSIONER [illegible]: Turning to the other side of competition, that is competition for assets, your brief puts quite a lot of emphasis on the problems of mortgages running for five-year terms, so far as the mortgagor is concerned, and the fact that you may be locked for such a long term. This is all quite understandable to me, but it seems to me that your competitors labour under the same disadvantage, and you are faced with competition which forces you to do this. Is that correct?

MR. TAYLOR: The trust company labours under the same circumstances, essentially.

COMMISSIONER GIBSON: And the insurance companies too?

MR. FORTIN: Yes. It is a question really of the short nature of obligations of loan companies in relation to the National Housing Act calling for up to 35-year loans. The problem does arise. All these lenders are subject to the provision of the Interest Act giving the borrower the right to repay, if it is expressed in terms longer than five years.

COMMISSIONER GIBSON: But what I am getting at is that the insurance companies and the trust companies are making mortgage loans in competition with you, and apparently despite this difficulty, are making longer-term loans, and they are subject to this five-year repayment. This is simply in the nature of competition, is it not?

MR. TAYLOR: I think we must distinguish between life companies on the one hand, and trust companies on the other. Then there are the loan companies -- speaking as one for the purposes of this question -- borrowing either on demand by way of savings or deposits, or on terms of up to five years. This in itself makes it unwise to attempt to loan for longer firm periods.

COMMISSIONER GIBSON: I appreciate this point, Mr. Taylor, but insurance companies provide you with competition because their money is of a longer-term character. But, this is part of the

competition of mortgage business.

MR. TAYLOR: Quite right. But they are not faced with the same disadvantages, because they are not borrowing short.

COMMISSIONER GIBSON: So, from a competitive point of view they have an advantage over you, and the trust companies are in the same position. Is that correct?

MR. TAYLOR: The trust companies are in the same position as we are?

COMMISSIONER GIBSON: Yes.

MR. TAYLOR: Yes, that is correct. Both the trust and loan companies are at a disadvantage vis-a-vis the life companies in this respect.

COMMISSIONER GIBSON: You couldn't extend your borrowings or raising of funds to a longer term in order to meet the life company's competition. You say your money is obtained on a short basis, or relatively short. Have you looked into the question of trying to obtain it on a longer basis?

MR. TAYLOR: We can only loan on a longer basis under the assistance of N.H.A. rates, which at the present time is $6\frac{1}{2}$ per cent; we couldn't borrow at a rate that would yield a margin to make it profitable or feasible.

COMMISSIONER GIBSON: But you can make conventional mortgage loans for whatever period you like, can't you?

MR. TAYLOR: We can if they are made to a corporate borrower; not if they are made to an

individual. There is no way it can pay off at the end of five years.

COMMISSIONER GIBSON: I am talking about your competition. I realize he is free to pay off, but you can offer him a longer mortgage, can you not?

MR. FORTIN: That is correct.

MR. MACKENZIE: We do guarantee the rate for 10 years.

MR. TAYLOR: Does anybody else care to comment on this?

MR. LECHARTIER: There is a difference as between the term of the loan and the amortization because most companies calculate the time of amortizations for periods of 10, 15 or 20 years, and when the loan matures after five years it can be continued -- and this is what is generally done -- at a new rate which is higher or lower depending upon conditions in the market.

COMMISSIONER GIBSON: So that even if you raise money on a 10-year basis and have a rate that does not make sense, you can make a new rate when you renew?

MR. LECHARTIER: We are in a special position because we raise our money by way of long-term bonds. We raise our money for periods of 15 or 20 years.

COMMISSIONER GIBSON: So your business is essentially a little different from that of many of the other loan companies?

MR. LECHARTIER: In many cases.

COMMISSIONER GIBSON: Is most of your loaning of a long-term character?

MR. LECHARTIER: Yes, mostly.

MR. FORTIN: Another aspect is that you can borrow money at a cheaper rate for a short term than for a long term.

MR. TAYLOR: That was the point I was attempting to make, but I did not state it as clearly

as Mr. Fortin did.

MR. FORTIN: There is one other company which follows the same practice as Mr. Lechartier's company. It is a mortgage corporation, but it does not take deposits; it issues long-term bonds.

COMMISSIONER GIBSON: Now, with respect to this matter of competing for mortgages, does competition affect appraisal standards very much? You put much emphasis on lending up to two-thirds of the value of the property, but you point out that appraising the value of the property is a matter of judgment. Is there much flexibility in appraisals from a competitive point of view? In other words, can you stretch it a bit ; is there any relationship of appraisals to the competitive factor?

MR. FORTIN: I would say that appraising is a tight sort of thing. There are differences, and it might be that a company might stretch a point in order to get a particular loan, but I do not think it is a general practice. I think the appraisers themselves are rather jealous of their judgment. Of course, there are bound to be differences, but I do not think that competition itself affects the judgment of the appraisers in setting the value. That could happen in the odd case, but I do not think it is general at all.

MR. TAYLOR: I think the mortgage inspector may be looked upon as a salesman. He is competing in the field with other inspectors, but his head office must make sure that his judgment is not being warped.

I think it is the constant job of the central office to see that there is no stretching of a point, otherwise it could quickly get out of hand. Do you agree with that?

MR. LECHARTIER: Yes.

COMMISSIONER GIBSON: I suppose at any given time, in looking at a property, there would be a logical range of difference of, perhaps, 5 or 10 per cent?

MR. TAYLOR: Yes. It is a matter of individual judgment.

COMMISSIONER GIBSON: Would the appraisers or inspectors be conscious of the fact that you were anxious to increase your loans, or are these inspectors pretty professional sort of people who just go out and do a job by certain standards?

MR. TAYLOR: I think it is fair to say that they are professional people, but you must acknowledge that they are also salesmen, and as salesmen it is up to them to see that the selling aspect does not warp their judgment in the appraisal of an individual loan. Does that answer your question?

COMMISSIONER GIBSON: You have a constant problem here, really.

MR. TAYLOR: Yes. I wonder if the same situation applies in the life insurance business where the life salesman is out to get volume, but his actuarial department is there to put the brakes on him. I think the same situation applies. The mortgage inspector applies his judgment only, but he is aware also of competition and of what he is ex-

pected to do. It is up to his head office to put the brakes on.

COMMISSIONER MACKINTOSH: Would not a closer parallel be as between your appraiser and the examining doctor for the life insurance company?

MR. TAYLOR: Yes, I suppose so. I am sure I speak for each member company when I say that we have a form of internal check and inspection of properties by head office personnel who are divorced entirely from any competitive influence, and whose job it is to insure that valuations that are being made are sound.

I did not intend to do so much talking here, Mr. Chairman. Does anybody have any comment to make?

MR. NORSWORTHY: I might add that a great many of these men are trained in appraisal work, having attended schools for appraisers and refresher courses. I think that has been quite common.

COMMISSIONER GIBSON: And your company's man would have a similar background in appraising as would Mr. Taylor's man.

MR. NORSWORTHY: Yes, I would say so.

MR. TAYLOR: There are appraisal associations, and I would think that most appraisers of most companies would be members of appraisal institutes. These are maintained not only by loan companies and mortgage companies, but they are participated in by real estate interests of all kinds.

COMMISSIONER GIBSON: So you would say that competition in the amount of the loan is fairly limited ;

[illegible] to do. It is up to his head office to put the [illegible] on.

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COMMISSIONER [illegible]: And your company's men would have a similar background in appraising as would Mr. [illegible]'s men?

MR. [illegible]: Yes, I would say so.

MR. TAYLOR: There are appraisal associations, and I would think that most appraisers of most companies would be members of appraisal associations. These are maintained not only by trust companies and mortgage companies, but they are pretty well tied in to real estate interests of all kinds.

COMMISSIONER [illegible]: So you would say that competition [illegible] the [illegible] of the loan is [illegible] limited;

is that correct? In other words, there is not too much room for competition in the amount of the mortgage loan?

MR. TAYLOR: I would not go that far. It is hard to generalize. I think within a relatively small percentage range there is great competition.

COMMISSIONER GIBSON: What would this range be -- 5 or 10 per cent?

MR. TAYLOR: That depends entirely on the type of property. I think in new house construction it would be a smaller margin than that which would apply to industrial and commercial lending. Would you agree with that?

COMMISSIONER GIBSON: There would be a wider range when you are dealing with a shopping centre or an office building, and that sort of thing?

MR. TAYLOR: I would think so, yes.

COMMISSIONER GIBSON: Then, the rate is very important competitively, I take it?

MR. TAYLOR: Extremely so.

COMMISSIONER GIBSON: But at any given time your rates are pretty much the same?

MR. FORTIN: Your competition forces them to the same level.

COMMISSIONER GIBSON: What would you say is the most important factor in the competition? Is it the amount you are prepared to loan on a particular property, or is it the rate at which you are prepared to loan?

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MR. TAYLOR: Your competition forces them to the same level.

COMMISSIONER GIBSON: What would you say is the most important factor in the competition? Is it the amount you are prepared to loan on a particular property, or is it the rate at which you are prepared to loan?

MR. TAYLOR: I think in a period of tight money, such as exists here today, it is perhaps the amount you are prepared to loan that would be the more important of the two factors, but under conditions of easier money the rate would be the predominant factor.

MR. FORTIN: There is also, in both cases, the speed of pay out of the mortgage money. A company closer by can get you the money more quickly. They can decide very quickly either Yes or No. A company that is further away may be delayed somewhat. So, the company which is prepared to jump in and give the money right away wins out, assuming that the rate and other things are equal. There are some niceties, as in everything else. Some people seem to be better able to attract business than others. There are all these personal problems that arise, but the speed of the pay out is one of the factors.

COMMISSIONER GIBSON: Another way of looking at this business of growth and the competitive situation is to look at the margin of profit. According to your brief, the profits have been pretty steady in recent years. In the last six years or so there has been relatively little increase, even though your assets have risen quite a lot. This comes out in paragraph 72 of your brief. You will see that the profit spread after taxes shows comparatively little change from 1956 to 1960.

MR. FORTIN: These have been good years, and there has been a lot of demand for mortgage loans. You will notice, on the other side, that the loan

companies have been able to attract more money to themselves. Economic conditions have been such that there have been no, or practically no, delinquent mortgage debtors. There has been no particular problem in collecting interest, and so on. So, the recent years have been pretty good years.

COMMISSIONER GIBSON: But the profits have not increased in the last five years to speak of and yet your assets are up quite a lot. On page 56 you will see the increase in assets.

MR. FORTIN: The cost of doing business has gone up.

MR. MACKENZIE: The corporation tax increased in that time from 48 per cent to 52 per cent.

COMMISSIONER GIBSON: Well, your assets are up by 50 per cent.

MR. MACKENZIE: The last six years have been very difficult years. Short-term money has been tight, and the average spread you could get on the cost of your money has been whittled down. For example, within the last month or so we have been paying 6 per cent plus for term money, and even if you can lend it out at 8 per cent the gross spread is a little less than two per cent. If it costs you one per cent to administer, then the other less than one per cent has to be shared with the corporation tax.

THE CHAIRMAN: Your figures show the spread to be more than that. It seems to average 2.8 per cent.

MR. MACKENZIE: Yes, but I am talking about

[illegible]nies have been able to return some money to them-selves. Economic conditions have been such that there have been no, or practically no, delinquent mortgage loans. There has been no particular problem of collecting interest, and so on. So, the recent years have been pretty good years.

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MR. [illegible]: The corporation tax increased in that time from 48 per cent to 52 per cent.

COMMISSIONER GIBSON: Well, your assets are up by 50 per cent.

MR. [illegible]: The last six years have been very difficult years. Short-term money has been tight, and the average spread you could get on the cost of your money has been whittled down. For example, within the last month or so we have been paying 6 per cent plus for term money, and even if you can lend it out at 8 per cent the gross spread is a little less than two per cent. If it costs you one per cent to administer, then the other less than one per cent has to be shared with the depositing [illegible].

THE CHAIRMAN: Your figures show the spread to be more than that. It seems to average 2.5 per cent.

MR. [illegible]: Yes, but I am talking about

investing the dollar through the borrower today.

THE CHAIRMAN: At times when the spread has been less than a certain amount have you cut back?

MR. MACKENZIE: We certainly have.

THE CHAIRMAN: What are reasonable spreads?

MR. MACKENZIE: Eight per cent is about the maximum rate you can charge today, but if you are paying 6 per cent for your money your gross spread is 2 per cent.

THE CHAIRMAN: And an 8 per cent asset would not be of the highest quality of assets?

MR. MACKENZIE: Not necessarily so. Money is the commodity. If you have to pay a lot for it then you have to get a higher rate of return when you invest it.

MR. TAYLOR: I think the effective rate in the last few months -- the effective earning rate -- has been closer to $7\frac{1}{4}$ per cent.

MR. MACKENZIE: That is right.

MR. TAYLOR: We are in direct competition with all other lenders such as trust companies and life insurance companies. There is a multitude of other lenders. I think a rate of between 7 and $7\frac{1}{4}$ per cent has applied during the last few months, and during that time we have been borrowing money at rates as high as 6 per cent.

COMMISSIONER GIBSON: From $4\frac{1}{2}$ per cent to 6 per cent?

MR. TAYLOR: No, $5\frac{1}{2}$ per cent to 6 per cent.

MR. FORTIN: Except on deposits.

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THE CHAIRMAN: At times when the spread has been less than a certain amount have you [illegible]?

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MR. MACKENZIE: Not necessarily so. Money is the commodity. If you have to pay a lot for it then you have to get a higher rate of return when you invest it.

MR. TAYLOR: I think the effective rate in the last few months -- the effective earning rate -- has been closer to 7½ per cent.

MR. MACKENZIE: That is right.

MR. TAYLOR: We are in direct competition with all other lenders such as trust companies and life insurance companies. There is a multitude of other lenders. I think a rate of between 7 and 7½ per cent has applied during the last few months, and during that time we have been borrowing money at rates as high as 6 per cent.

COMMISSIONER GIBSON: From 4½ per cent to 6 per cent?

MR. [illegible]

MR. POWELL: Except on deposits.

MR. TAYLOR: I am talking about term money of from one to five years.

COMMISSIONER GIBSON: So your margin has been less than 2 per cent on your additional marginal business?

MR. TAYLOR: Yes.

COMMISSIONER GIBSON: You seem to have been reasonably successful in keeping your administrative costs down as a proportion of your total operation. You show figures on page 41 which suggest a pretty effective cost control. In any case, the percentage of administrative costs as compared to assets to be administered has not been rising?

MR. FORTIN: I think one can say that it is a constant struggle to keep expenses down, because this margin we talk about fluctuates depending, on the one side, on what you can get from your mortgages, and on the other, on what you have to pay for money, and that varies from day to day. So, if you allow your expenses to go too far afield you have not got much time in which to catch up because these other factors also catch up. Right through the piece you have a tendency to keep your costs down, and you have to find new ways of doing things at less cost.

COMMISSIONER GIBSON: You tend to have larger individual operations in a highly competitive environment, and a smaller margin in order to have your volume?

MR. FORTIN: Not if it is not profitable. If the thing gets so bad that you cannot get money at

MR. TAYLOR: I am talking about term money, from one to five years.

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COMMISSIONER GIBSON: You tend to have larger individual operations in a highly competitive environment, and a smaller margin in order to have your volume?

MR. MARTIN: Not if it is not profitable. If the thing gets so bad that you cannot get money at

a rate then you borrow less money and begin to pay back what you have got so as to cut your interest costs. If, on the other hand, you can get your money out at a good rate of interest, and there is plenty of it being called for, then you will be willing to pay more for your money in order to be able to get the larger business.

COMMISSIONER BROWN: What is this marginal spread?

MR. FORTIN: As we tried to explain in the brief, Commissioner Brown, there is a rate which each company would like to get. It is the asking rate. It is a rate which takes care of the cost of money, the cost of administration, taxes, provision for losses, and something to plough back into the business. It does not mean to say that because that is the rate you would like to get that you can get it, because there are other lenders in the field with other requirements. You just test the market with the rate you would like to get, and you find you do not get any business. You cannot get mortgages at that rate. Then, if you want to continue in the mortgage business you must reduce your asking rate in order to compete with other people, in which case you are faced with deciding how much you want to take in relation to the cost of the money. You will tighten down on your operations by doing less volume if money is too high, because your margin, as I explained, has thinned out.

COMMISSIONER BROWN: You said the point was the rate at which you stop borrowing and start paying back and reducing your lending, but what point is that?

What is the margin below which you will not go?

MR. FORTIN: It will vary with every company, because it varies with its profit and loss account.

COMMISSIONER GIBSON: It would vary with the size of the operation, too?

MR. FORTIN: And how extensive it is, whether it is from coast to coast, or local, or what.

COMMISSIONER BROWN: Then, in your total on page 68 I think you are comparing 1956-1957 to 1960, and it appears that your payments on interest double whereas your income from interest on mortgages is increased by only 50 per cent, so there is an obvious thing there.

The point I was going to ask on particularly on that table was on the transfers to investment reserves. It went up from $611,000 to a billion 4 in 1959 and a billion in 1960, and in 1958 it was only $48,000; why would this be?

MR. FORTIN: This is in thousands; it is one million.

COMMISSIONER BROWN: I am sorry; one million four in '59, and one million in '60.

MR. FORTIN: It is one million. You startled me by putting it that way. As the brief explains the question of reserve is a peculiar one. You will notice that the tables are based on the accounting methods adopted by the Ontario Registrar of Loan and Trust Corporations, which are not the same as by the Federal Superintendent of Insurance, so that the treatment of reserves in Ontario, although it is not being done by some companies, is that the assets are netted and hence the reserve doesn't show nor does the transfer show, whereas in other cases the

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asset is gross and the reserve is set up and that is actually the way it should be handled because those are the published official figures, so that as the brief says the amount of the reserve is greater, the actual reserve is greater than that shown in these figures because of this difference in accounting.

COMMISSIONER GIBSON: And there is no way to show how much?

MR. FORTIN: I don't know of any unless you were to recast all the accounting over those years.

MR. TAYLOR: You have asked a question that I think perhaps it is nice for us to reply to in generalities, but I think from your standpoint it would be more satisfactory if we attempted to be more specific.

I think each company borrows to some extent on its own costing but I think, speaking generally for the companies -- and I stand corrected if this does not apply -- I think there must be a margin between 1 3/4 and 2 per cent to achieve a break even point between borrowing on debentures and loaning on mortgages. Would you agree on that, that between 1 3/4 and 2 per cent is the experience in the lending companies?

COMMISSIONER BROWN: When the spread gets below that you don't actively go after further mortgages?

MR. TAYLOR: Well no you don't, that is perfectly true. I can answer specifically, if I am

not acting in poor taste by referring to my own company, that we for instance in the month of August, simply by pressure of competition on interest rates, generally we were loaning at the recognized rate of between 7 and $7\frac{1}{4}$ per cent; we were doing practically no loaning over $7\frac{1}{4}$ per cent. We did for a short period of time borrow money at 6 per cent. We didn't advertise as we took it only for one and two year terms and we were losing money on it. We did it to protect our existing connections, it was important to us to maintain these connections, but because we were conscious of the fact we were definitely losing money on that we neither advertised for it nor attempted to get any new money at that rate because we were operating on a spread there of about one to $1\frac{1}{4}$ per cent. I am sorry if I am in poor taste in referring to my own case.

COMMISSIONER BROWN: Here is an example of one question which I was going to ask you. A number of your member companies are national companies?

MR. TAYLOR: Yes.

COMMISSIONER BROWN: To what extent do geographical differences enter into this; are you borrowing in one part of the country and loaning to another part, and in that way getting a greater spread?

MR. TAYLOR: That is right; I think the spread would be no greater than one-quarter of one per cent from the standpoint of geographical significance, I don't think there would be more than one-quarter of one per cent in the various areas.

COMMISSIONER BROWN: Can you give us a picture of what these regional differences are?

MR. MACKENZIE: In the Maritime provinces and in Nova Scotia in particular, there are two local companies, The Eastern Canada Savings and Loan and the Nova Scotia Savings and Loan and Building Society, and their debenture rates are easily half a point more than Canada Permanent rates are in that area, and likewise for the savings deposits, where we are paying 3½ on the chequing accounts and 4 per cent on the special savings, they are now 4 per cent on the chequing accounts and 4½ for the non-chequing accounts. That has been traditional, and therefore we pump more money into Nova Scotia from other parts than we take out and we invest the Nova Scotia money.

COMMISSIONER BROWN: The western part of the country; is there any regional difference there?

MR. TAYLOR: I think there is an even more slight differential; I think in the prairie provinces, I would be quite sure that it would be one-quarter or less in my experience; I wouldn't think it would run above a quarter and in a great majority of loans the rate that would apply to comparable properties on the prairies and in Ontario would be the same, and I think there are cases where the rate runs up as high as one-quarter, but nothing more than that. Would you agree with that?

MR. MACKENZIE: I can't speak too well for the west.

MR. TAYLOR: I would think basically, so as not to give the wrong impression, that rates in the

prairies and in Ontario would be the same.

MR. MACKENZIE: I think it should be pointed out, too, that we people in the loan industry are individualists; there is never any collaboration on the rates we charge on mortgages or the loans which we allow on debentures, and so on. The need at the time pretty well sets the pattern. There is no collaboration. There is no setting of rates.

COMMISSIONER BROWN: I will turn to a slightly different topic, but first do any of the other Commissioners have any questions on this part of it?

COMMISSIONER MACKINTOSH: Might I interject a question which goes back to almost the beginning. Why did none of these companies ever develop to any degree the Building Society features with which they started?

MR. FORTIN: This is before my time, but I have heard that the Canadian public didn't go for it -- this is only hearsay to me -- and unfortunately most of the people who were then active are not here and I have not been able to find any literature that covers the point.

MR. TAYLOR: I think the Building Society operation as it applied in the middle and the latter part of the 19th century called for borrowing from the old country; your borrowing customers were not in your immediate area. The money was brought over and loaned to people who were developing land. That was the origin, I think, of your company and ours.

MR. NORSWORTHY: Back in 1847 our company then known as the Port Sarnia Building Society, and then in 1855 it was the Lambton Permanent Building and Investment Society, and we obtained money by way of auctions, and possibly if you care to read this paragraph, Dr. Mackintosh, it may help to explain it.

COMMISSIONER MACKINTOSH: I will look at it later. Thank you very much. I have always been curious as to why these companies which you established on the British model did not develop, whereas in Britain the building societies have become one of the pillars.

MR. NORSWORTHY: I believe in the case of our company that was the idea when it came over here.

COMMISSIONER MACKINTOSH: Thank you.

COMMISSIONER BROWN: I wonder if I could move to another part. The brief has a section on the money supply of loan companies, and I am not quite sure whether you are dealing with this because you think you are almost banks and you are afraid you might be considered banks, or that you want to be banks, or that you don't want to be banks. You are obviously carrying on some operations which are pretty akin to banking operations, particularly savings banks.

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For example, have you any figures on your turnover of savings accounts on deposits?

MR. FORTIN: No. I think the explanation is that a number of the loan companies were parties to the study made for the trust companies by Western University and that that phase, that section of the Western University study, applies to the loan companies in that field, and the companies that took deposits were part of that study and we didn't make any other study.

It shows in that study how the loan companies and the trust companies are in the same position, vis-a-vis the question of what is banking and what is not banking, and there is no difference between the position of the loan companies than that taken by the trust companies. We do the same kind of borrowing by way of taking deposits and borrowing by way of obligation.

THE CHAIRMAN: The trust companies had some arrangement whereby the monies were trust monies and I don't think that applies to your mortgage loans, does it?

MR. FORTIN: From a practical point of view, Mr. Chairman, and not wanting to be facetious about it, I think the trust angle is perhaps more of a legal fiction.

COMMISSIONER BROWN: Now he tells us!

MR. FORTIN: The result is the same; we take money and we re-lend it, and in speaking in terms of the monetary situation the position is just the same.

[illegible]

MR. HORLIN: No. I think the explanation is that a number of the loan companies were parties to the study made for the trust companies by [illegible] of the Western University study, applied to the loan companies in that field, and the companies that took deposits were part of that study and we didn't make any other study.

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MR. HORLIN: The result is the same; we take money and we re-lend it, and in speaking in terms of the monetary situation the position is just the same

THE CHAIRMAN: That is what I had thought myself, but some of the members of the organization who appeared before us very strongly took the opposite view.

MR. FORTIN: The method of obtaining the money is different. The effect is that once you have it you loan it, and instead of borrowing it you accept it in trust and you get it and you lend it out and, as I say, from the point of view of monetary control and the use of the money in the stream, whether I give my money to a loan company or to a trust company, both make mortgage loans and the effect is just the same.

We don't think we are doing a banking business -- not being too sure what "banking" means -- we don't think that the taking of deposits by itself constitutes banking, nor do we think that if the deposit happens to be chequing that that by itself constitutes banking, and we think that banking is a sort of a broad specialized thing, some of which we are not able to do.

THE CHAIRMAN: What are you not able to do?

MR. FORTIN: We are unable, for example, to make loans on bills of exchange; we are limited to certain definite types of investments, which are much more stringent than the banks are. For example, we may not make loans on the security of inventories, and that type of thing.

We borrow money and we get it and we lend it.

COMMISSIONER BROWN: What is the difference

between your operation and that of, say, the Quebec Savings Banks?

MR. FORTIN: They are only different in two ways. Firstly, the Quebec Savings Banks must limit itself on the borrowing side as to deposits and may not issue debentures or that type of thing, and secondly, the nature of the Quebec Savings Banks' investments is different; for example, they may make unsecured loans which we cannot, they are limited as to their mortgage loans essentially to residential construction, they are limited in that respect to a percentage of their deposit liabilities, which we are not.

COMMISSIONER BROWN: So, in some ways you are in a better position than the Quebec Savings Banks?

MR. FORTIN: As to amount in mortgages but not as types of investments because the Quebec Savings Banks can do some loan business without security; we can't do that.

COMMISSIONER BROWN: In talking about controls and cash reserves, you have a peculiar sentence in paragraph 14.

MR. FORTIN: That is possible!

COMMISSIONER BROWN: You talk about a cheque drawn on a bank and you say:

> "either way the particular bank loses the deposit and recovers the cash reserve it held in the central bank."

MR. FORTIN: That is paragraph 14?

COMMISSIONER BROWN: Yes, paragraph 14.

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"Either way the [illegible] loses the deposit and receives [illegible] reserve it held in the central bank."

MR. [illegible]: That is [illegible]?

COMMISSIONER [illegible]: Yes, paragraph 14.

MR. FORTIN: Yes.

COMMISSIONER BROWN: I find difficulty in understanding this because surely if a bank loses a deposit to another bank, it loses the whole of the cash reserve equivalent to the amount of that deposit which it has in the central bank, it doesn't recover anything?

MR. FORTIN: But the 8 per cent which was held for that deposit is no longer required; in other words, the minimum reserve, the unearning part, that is the reserve which it can loan and earn interest on is increased by the fact that the 8 per cent non-interest earning no longer has to be kept.

COMMISSIONER BROWN: I think you are a little confused on that, are you not?

MR. FORTIN: This is quite possible.

COMMISSIONER BROWN: Suppose that it is $100,000 and it moves from one bank to another; that bank is less $100,000 in the central reserve?

MR. FORTIN: But I am talking about the minimum reserve of 8 per cent, which is the non-earning reserve.

COMMISSIONER BROWN: I am afraid I don't follow that.

MR. McILROY: Would it be clearer to put it this way; if the one bank loses the deposit of $1000 we have said that it loses $1000, but we say that in fact it recovers 8 per cent which it had to leave down at the Bank of Canada; in other words, the net loss is 92.

MR. FORTIN: Yes.

COMMISSIONER BROWN: I find difficulty in understanding this because surely if a bank loses a deposit to another bank, it loses the whole of the cash reserve equivalent to the amount of that deposit which it has in the central bank. It doesn't

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COMMISSIONER BROWN: That is right only in the sense of earning capacity.

MR. McILROY: That is what we say.

COMMISSIONER BROWN: But it loses the whole $1000 at the Bank of Canada.

MR. McILROY: But, in fact, it didn't have the use of the $1000, it only had the use of $920, so we say it loses $1000 and recovers $80.

COMMISSIONER MACKINTOSH: You are saying that it only loses $920 of the earning assets?

MR. McILROY: Right.

MR. FORTIN: That is what we tried to say.

COMMISSIONER BROWN: I don't quite read it that way; perhaps if you had put in the words "loses the deposit at the Bank of Canada," but you just say it loses the deposit, and as such it doesn't make sense.

MR. McILROY: It loses the $1000 deposit, but it no longer has to retain at the Bank of Canada the $80 reserve.

COMMISSIONER BROWN: But it loses $1000 at the Bank of Canada?

MR. McILROY: That is right.

COMMISSIONER BROWN: It loses the whole $1,000 in the Bank of Canada.

MR. McILROY: As we see it, it loses the deposit in that the minimum reserve it must retain there is reduced by $80, 8 per cent, so there is a net loss in effect of investable assets of $920 -- not a $1,000. It would not have the right to invest a $1,000, to use a $1,000.

COMMISSIONER BROWN: I am afraid we are talking about different deposits.

MR. McILROY: That could be.

COMMISSIONER BROWN: Your answer clarifies that. I certainly did not read that meaning in your text.

MR. FORTIN: I must apologize for it, for what I say is bad grammar. That is the intention.

COMMISSIONER BROWN: Now, you make some reference to the clearing system.

MR. FORTIN: Yes.

COMMISSIONER BROWN: Can we ask a question whether you are perfectly satisfied with your participation in the clearing system as such?

MR. FORTIN: We would like it a bit cheaper, but we have no particular complaints. The banks give you a quick service and, so far as the mechanics are concerned, it is working all right. I cannot say we have any difficulty about it, nor do we have any representations to make specifically on it.

COMMISSIONER BROWN: In connection with your cash and liquidity reserves, there was quite a change-over in 1956 and 1960. It appears on page 58. On the

liability side deposits went down and debentures went up in percentages. That is, if you look at the four years 1957, 1958, 1959 and 1960.

MR. FORTIN: More money was obtained by the sale of debentures than was taken by deposits.

COMMISSIONER BROWN: Is there any particular reason for this?

MR. FORTIN: There may be two reasons for it. One is that there is some difference of opinion as to whether the less costly or easier method of obtaining money is by way of deposit. Some individual companies -- two of them at least -- do not believe in taking deposits. Others question what the proportion might be in terms of deposit versus debenture money. That becomes an opinion of management. There may have been a time when it was easier to attract money by way of deposits than by debentures, and vice versa, but I personally do not think there is any significance except that of individual management.

COMMISSIONER BROWN: I did not know whether this was a matter of debenture policy in connection with cash and liquidity reserves.

MR. FORTIN: I would not think so, but Mr. Taylor may have something to say on this.

MR. TAYLOR: I do not think I have anything to add to that. Have any of you gentlemen anything to say?

MR. MACKENZIE: One could make more money without term borrowing. As your savings grow you have to keep adding to your bonds portfolio, which does not

liability since deposits went down and debentures went up in percentages. That is, if you look at the four years 1957, 1958, 1959 and 1960.

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MR. MACKENZIE: One could make more money without borrowing. As your savings grow you have to keep adding to your bonds portfolio, which does not

give you quite a spread.

COMMISSIONER BROWN: But in the same years there were no changes in the mortgage proportions?

MR. FORTIN: Just nominally.

MR. MACKENZIE: I would not think there is significance attached to the trend because there is a different approach by different companies to this. I do not think there would be a consistent pattern. In other words, some companies might have increased their demand money percentage-wise as against the general indication of an increase in term money.

MR. MACKENZIE: Short term came into the picture also in 1959 and 1960. They did not show in the previous years in the asset part.

MR. TAYLOR: Going back over the full period of years shown in the appendix, there is actually a very small change in deposit money from 1928, when it was shown at 17 per cent, as against 23 per cent that applied in 1960. Debentures went up from 45 per cent to 61 per cent during that period.

MR.FORTIN: I think you will find also, Mr. Brown, there are some branches of a particular company in which, for some reason, deposits go big and debentures go down, and vice versa, and the attractiveness in either instance depends on the customers in the particular area and their view of it. There are times when it is easier to sell debentures. For example, I would say if you are offering debentures at 6 per cent, I will probably take my deposit out and stick it in debentures.

COMMISSIONER BROWN: This is what I was getting at. Was there a deliberate policy move to take this money out of deposits, which is subject to chequing privileges, to get it into the longer term?

MR. FORTIN: I do not think so. I think it is a move by the depositor himself. Depending on the rate of money he gets he will switch from a deposit to a debenture.

COMMISSIONER BROWN: I presume a company induces this by making a differential in rates?

MR. FORTIN: They may want to resist it because it is costing them more money.

MR. McILROY: In a period of high interest rates, looking at it from the point of view of the investor -- and I am thinking of my own case, in a period of high interest rates when you could get 6 per cent on loan company debentures, the average person with a savings deposit might say: "I won't need that money for three or four or five years. I want to assure myself of the high rate for a period," and knowing that the higher interest rates are not volatile in the debenture field -- they are not subject to change -- then a person who buys debentures is assured of that money for the period of the debentures.

THE CHAIRMAN: I think we will adjourn for fifteen minutes now.

--- Short recess.

THE CHAIRMAN: We can now resume.

COMMISSIONER GIBSON: Mr. Chairman, I might

COMMISSIONER BROWN: This is what I was getting at. Was there a deliberate policy move to take this money out of deposits, which is subject to chequing privileges, to get it into the longer term?

MR. FORTIN: I do not think so. I think it is a move by the depositor himself. Depending on the rate of money he gets he will switch from a deposit to a debenture.

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COMMISSIONER [illegible]: Mr. Chairman, I might

ask a few questions about the effect of monetary and credit conditions on loan companies. The brief states that your operations may be said to be doubly sensitive to the policies being pursued by the authorities. This is on page 3 where you talk about the whole subject of interest rates. Then you go on to point out that the responsiveness of member loan companies to such policies tends to be delayed because of the medium and long term nature of the mortgage business and because of the time lag between approval of mortgage loans and the full disbursement of them by the loan companies. Now, I can see that you are much affected by the changes in the rate of interest and in the general credit atmosphere, but I think we would find it very helpful if you could add a little more to this and tell us how high interest rates restrict your operations and your opportunities, if they do, and conversely how lower rates of interest might expand them.

Starting out with rising interest rates, do higher charges for mortgage loans reduce the demand for mortgages much? How does this work?

MR. FORTIN: Mr. Gibson, in the periods of high interest rates, to attract money to ourselves we, of course, have to meet the competition and pay more interest to get the money.

COMMISSIONER GIBSON: This is on the gathering of the money side?

MR. FORTIN: Yes. On the pay-out side we are also subject to the competition of a lot of other

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COMMISSIONER GIBSON: This is on the gathering of the money side?

MR. [illegible]: Yes. On the pay-out side we are also subject to the competition of a [illegible] of other

lenders who may not have to pay so much for their money. If we have to pay more for our money, we endeavour to obtain more on our mortgage loans. Sometimes that is not always possible because the would-be borrower might be able to get his money at a lower rate of interest, or he may feel that at that price he had better delay his need of the money. For example, if we have to charge 8 per cent, and Joe Dokes says: "I am not going to pay 8 per cent for that money; I don't want it; I will wait," by the same token if he finds a lender to whom the cost of money is less, and he can get the money at 7½ per cent, then the loan company will not get his business. Now, there is a point where the mortgage business freezes up because people are not prepared to pay the price of money for a mortgage loan depending on the use for which they want to put it.

You have, of course, a different type of demand in respect of housing loans, commercial loans, existing properties, apartments and all of that type of thing, and you have periods when there is a slackening demand for loans in one area and not in another, and you have a condition where, as so often happens, for example, a life insurance company will be quite prepared to make mortgage loans at 7 per cent whereas a loan company will take the position that it cannot lend at less than 7¼ per cent. That goes on continuously.

COMMISSIONER GIBSON: Which is the cart and which is the horse? Do you look for the mortgage and say "We can get 7¼ per cent or 7½ per cent for good

loans, this is attractive to us", or do you go out and bid for more money in order to bring it in first? Do you pay what you have to pay for money and then look for the mortgage loan and see what you can do?

MR. FORTIN: I believe it is the demand for mortgage money which calls the tune. If you think you can put your money out at a higher rate on any kind of mortgage, then you go out and try to get the money.

COMMISSIONER GIBSON: And if mortgage rates are more attractive you will change your interest rates on deposits in the process?

MR. FORTIN: Mind you, it is not altogether so simple. For example, you may have one branch manager who is continually bringing in some kind of business to you, which you look at, and he says "Look, I can put out any money you have at 8½ per cent." Then you make that play, but usually it is upon the demand for mortgage money that the quantum of the mortgage business depends.

COMMISSIONER GIBSON: Do your operations tend to be gradually restricted when rates are high? I have been looking at your figures here and it seems to me they have not been rising very rapidly, but they have been rising every year, whether money was easy or money was tight. There are some variations in this but it does not seem as though tight money and high interest rates have restricted your operations very much. If there is an increase in your mortgage business and each year there is an increase in your

liabilities and deposits --

MR. FORTIN: I think the practical man will tell you, Mr. Gibson, there have been periods when the loan companies were making few mortgage loans because of conditions.

COMMISSIONER GIBSON: You are not talking about tight money. You are talking now about times when it is hard to find mortgage loans, but could we talk about tight money first?

MR. FORTIN: The effect of tight money makes it difficult for us to obtain the money at what we might call reasonable rates of interest.

COMMISSIONER GIBSON: But it makes the mortgages more attractive too?

MR. FORTIN: But you have a point when nobody is going to pay 8 per cent on a five year mortgage because the rate is too high. He delays or postpones the use that he would have put the mortgage money to, if he had obtained it.

MR. MACKENZIE: Our experience has been that you have a falling off in demand when the interest rates are high.

COMMISSIONER GIBSON: But you seem to get some additional money to meet the higher demand.

MR. MACKENZIE: Oh, yes. As I mentioned before, we paid 6 per cent for term money in August because we had a big backlog of accepted business to process and service, but you usually get the mortgage investments first and then look for the money afterwards

rather than put yourself in too liquid a position with a lot of money not working for you.

COMMISSIONER GIBSON: This is a good example of your operations being restricted by a tight money situation?

MR. MACKENZIE: Yes.

COMMISSIONER GIBSON: You are not going to borrow money at 6 per cent and then lend it out at the current mortgage rate?

MR. FORTIN: That is right.

COMMISSIONER GIBSON: Do your operations tend to expand when money is easier? Do you not have to compete more vigorously for the mortgages?

MR. FORTIN: I think you have a better chance of competing with the insurance companies when conditions are easier. You can get a more competitive rate.

COMMISSIONER GIBSON: How about collecting your money? I mean deposits and debentures?

MR. FORTIN: There was a long period of time -- it seems a long time ago, when you could get your money at 3½ per cent and you could lend it at 5½ per cent. You have the same spread today when you are paying 6 per cent and charging as high as 8 per cent. There is another point to that. When you get a debenture rate in the 4 per cent category, for instance, it could be through your savings deposits instead of debenture savings.

COMMISSIONER BROWN: May I interject one question here. When interest rates are high, as they are at the moment, do you tend to try to attract money on a very short-term basis? Do you try to borrow for one or two years when the interest rate is high?

MR. MACKENZIE: Speaking for my own company, we have 6 per cent across the board, one, two, five years -- take your choice. It is interesting to see how investors go and what proportion of them choose one of each period. Many investors are taking a chance that interest rates will be better next year; others think 6 per cent is historically high and will take the long-term.

MR. TAYLOR: I think this indicates that we are a bunch of rugged individuals. Some companies in the last month or two have been offering higher rates for longer terms than for short terms. It is a crazy quilt pattern, though it is probably healthy for the investing public. The public has had ample choice. Some companies have been prepared to borrow at 6 per cent for up to five years, while other companies are prepared to borrow at 6 per cent for only one or two years.

MR. NORSWORTHY: That could also vary with commitments you have at higher rates of interest -- you could not afford to pay 6 per cent for five years.

COMMISSIONER BROWN: I was trying to find out from you what companies were betting on higher rates next year.

MR. TAYLOR: We are betting on high rates

lasting for a short term. We are only issuing at 6 per cent for one or two years; we would not issue beyond two years because of our very strong conviction that we were in an unusually high rate period.

COMMISSIONER BROWN: Would you also vary this by being prepared to go to larger amounts over certain years than other years? I understand some companies will place the limit of $100,000 or $25,000 on individuals. Do you vary the maximum?

MR. TAYLOR: We vary the maximum, but with a ceiling. I think most companies recognize the virtue in having a ceiling, so that we may maintain the position of diversification -- the breadth of choice, this is very important.

COMMISSIONER GIBSON: Do you, when money is fairly easy, tend to expand in your operation? Is this a generalization?

MR. LECHARTIER: I would say that when money starts to get easy it leads to expansion of operations. We find that when people are squeezed because of having to get a mortgage, they will come to us for their mortgage, and in a period of tight money we receive more demands for loans.

COMMISSIONER GIBSON: You have a bigger demand.

MR. LECHARTIER: A bigger demand, exactly.

COMMISSIONER GIBSON: I take it from what some of you gentlemen have said, it is more difficult and more expensive to get money, and at some point you say: This is enough -- we can't have any more.

lending for a short term. We are only lending, at 6 per cent for one or two years; we would not issue beyond two years because of our very strong conviction that we were in an unusually high rate period.

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COMMISSIONER GILLSON. You have a higher [illegible].

MR. [illegible]: A higher demand, exactly.

COMMISSIONER [illegible]: I take it from that some of your [illegible] money [illegible], it is more difficult and more expensive to get money, and at some point you say: This is enough -- we can't have any more.

Your figures show that you have gone up every year, though not very sharply. I am trying to get the reason for that.

MR. LECHARTIER: We can take some short-term money that may even start off at a higher price for one year, and then that can be consolidated at a lower rate for more years.

COMMISSIONER GIBSON: You are saying that the demand is very important, and if the demand is there you find the money somehow. Is that a fair statement?

MR. LECHARTIER: Yes.

COMMISSIONER GIBSON: How about when the demand is not strong, when there is plenty of money available? Do you manage to get it out by reducing the rate or making more favourable terms?

MR. MACKENZIE: We don't take it beyond our needs.

COMMISSIONER GIBSON: In other words, it is the demand for mortgages to a very large degree that determines the size of your assets and liabilities.

MR. MACKENZIE: That is true with our company.

MR. CONNOR: You might have to go into short-term bonds if no mortgages were available.

MR. TAYLOR: I think Mr. Fortin's answer to that applies to the companies in general. It is the determining factor in the mortgage market.

COMMISSIONER GIBSON: It is only when money gets very hard to get that you are really much

restricted.

MR. MACKENZIE: Money never seems hard to get; it becomes more expensive to get -- you have to pay more for the commodity than the going rate.

COMMISSIONER GIBSON: I am thinking of your example, if you have to pay 6 per cent...

MR. TAYLOR: This is what I mean when I said this was a question of rugged individualism.

MR. MACKENZIE: We have invested all the 6 per cent money we have taken very satisfactorily, and we don't think there is anything injurious in the figure of 8 per cent. People who need the money at the time understand the reason for the change, and the spread between 6 and 8 per cent; it is the same as between 3 and 5 per cent, and 4 and 6 per cent.

COMMISSIONER GIBSON: Suppose it were between 7 and 9 per cent, would there be some point at which it would have to stop.

MR. MACKENZIE: We used to think that 9 per cent was a very injurious rate, but when you hear of the rates of interest that have been charged on the Continent, we have changed our views about rates.

COMMISSIONER GIBSON: You don't look any differently upon a mortgage bearing a high interest rate than one bearing a medium interest rate.

MR. TAYLOR: Yes, we definitely do.

MR. MACKENZIE: Yes, definitely.

COMMISSIONER GIBSON: You feel happier about the one at the lower rate.

MR. MACKENZIE: No.

MR. NORSWORTHY: At the medium rate.

MR. TAYLOR: There is the variance, as this bears out, between the rates of the different companies. One can only speak for his own company: we are loaning at the 7 to 7¼ per cent rates.

MR. MACKENZIE: Is it because you can't get a higher rate, or do you think a rate beyond that point is injurious? Is there something wrong in a higher rate?

MR. TAYLOR: I am not suggesting there is anything wrong. I think the competitive factor dictates the basic lending rate, and the basic lending rate is 7 to 7¼ per cent today -- that is the rate at which life insurance companies and trust companies generally have been loaning. To loan beyond that, there is some element of a different type of security involved.

MR. MACKENZIE: I can't agree with that. Let us ask the easterners what rate they are paying for borrowing money. I think if they are loaning at 7 to 7¼ per cent they are doing so at a loss.

MR. CONNOR: Mr. Gibson, what we find is that there is some sort of psychological barrier in the mind of the mortgage borrowing public. You can go to between 7¼ and 8 per cent, beyond which they won't go. I cannot see anything wrong with paying 8 or 9 per cent, provided we can loan it out and get the spread. But the demand dissolves at between 7¼ and 8 per cent.

COMMISSIONER GIBSON: This is a sort of

traditional attitude.

MR. CONNOR: I can't explain it -- it is the way it is.

COMMISSIONER GIBSON: Has it anything to do with the fact that as the interest charge rises the payment increases, and at some point or other people say, "This is too much interest to pay."

MR. CONNOR: It must be so. It is perfectly logical that it should be so.

MR. FORTIN: You will recall, Mr. Gibson, not too many years ago everybody thought that anything over 3 per cent was sinful.

COMMISSIONER GIBSON: No, I don't remember that.

MR. FORTIN: Well, I do -- when there was trouble with municipal defaults, a 3 per cent rate on refunding was something every debtor wanted. 3 per cent was the rate then, but it has changed.

I think the situation is that there are periods when the rate makes no difference. Then the feeling changes. We have the situation where people, if they want something badly enough, will pay 12 per cent, and other people who say that anything over 6 per cent is terrible. That is true of the whole picture.

The higher interest rate does not necessarily connote an excess risk. That is why I say that an 8 per cent loan is just as good as a 7 per cent loan. But it could be that there is a psychological change that takes place: you are more troubled from the

public attitude towards a high rate. Those cycles come and go. There is a rate beyond which you don't like to charge, even if it is the economic rate. It depends, I think, on the individual lender's concept and purpose for which the loan is made.

COMMISSIONER BROWN: Is this concept based on the spread or is it an absolute figure?

MR. FORTIN: It is based on your own opinion at the time.

COMMISSIONER BROWN: If you could get money at 4 per cent is there something inherently against lending at more than the normal spread of, say, 2 per cent.

MR. FORTIN: No. If you could get money at 4 per cent you probably couldn't lend it at 8 per cent. In other words, the other people in the field operate on the lending rate as well.

COMMISSIONER BROWN: So it is competition that makes all the difference.

MR. FORTIN: Yes. For instance, if the economic rate was 15 per cent, you would hate to charge it, because there are connotations of moratorium legislation, and one thing and another. The public does not like that kind of thing, and by doing it you are inviting problems. I think apart from the economic rate, you don't like to, shall I say, soak the people.

COMMISSIONER GIBSON: This is somewhere around or above the 8 per cent.

MR. FORTIN: I don't know what it is. There

are times when it is one thing and times when it is another.

COMMISSIONER MACKINTOSH: May I interject a question? I am not completely carried along with this theory about squeamishness. Mr. Connor, you spoke about rates: is it not true in your part of the country that people are inclined to think that a rate of 8 per cent is too high and is not likely to be maintained indefinitely?

MR. CONNOR: Yes, I believe that is so.

COMMISSIONER MACKINTOSH: Is it not true that rather than being some blind feeling that 8 or 9 per cent is too high a rate, the higher it gets the greater the expectation that the rate will be lower, that is, if it is in the historically high range?

MR. CONNOR: Yes.

COMMISSIONER MACKINTOSH: And this will have the effect of flattening out your demand, if you think that next year or within a few months the rate may be down to $7\frac{1}{4}$ per cent.

MR. FORTIN: Dr. Mackintosh, it has been indicated to me by lenders of various kinds that they do not like to put on their books mortgage at, say, 9 per cent, but there comes a time in the cycle of things when the high rate mortgage causes you trouble with legislators, and that type of situation. Therefore, you prefer to make them at a lower rate. I think you used the word "squeamishness" -- I definitely think that there is a level, but what that level is

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COMMISSIONER MACPHERSON: Is it not true that rather than being [illegible] the feeling that 8 or 9 per cent is too high a rate, and by[illegible] it puts the [illegible] the expectation that the rate will be lower, that is, if it is at the [illegible] rise [illegible]

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MR. CONNER: [illegible]

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depends on the views of various people in various places at that time.

COMMISSIONER MACKINTOSH: I won't argue with you on your political judgments, Mr. Fortin.

COMMISSIONER GIBSON: Is there not some economic basis for this point of view?

One has to consider profitability, if it is a commercial mortgage, and income if it is an individual mortgage; when if you get up to 9 or 10 per cent interest, you have to make very cheerful assumptions about income and profits. Is this not one of the reasons why both lender and borrower tend to shy away from the high rated mortgage?

MR. FORTIN: It may be in part.

MR. TAYLOR: I think it very definitely is. You must bear in mind that about 75 per cent of all the loaning done by loan companies is done on houses of a residential nature, and the burden placed on the home owner is pretty great, with property taxes being what they are, and no relief from income tax as far as far as his mortgage payments are concerned. In those circumstances his mortgage interest rate is a very important factor in his ability to maintain his payments.

I don't think it is a question of being squeemish. I think that beyond a certain point it does not become good business, either from his or from the lender's point of view. I think basically we must remember, as loan companies, we are a relatively small segment of the loaning market.

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a basic rate at any given time. At the present it is definitely the 7 per cent rate. This is the rate that is dictated largely by others than the loan companies as such.

COMMISSIONER BROWN: Are you referring to the N.H.A. rate?

MR. TAYLOR: Not directly, but indirectly it is related to the basic interest rate in the country, because it is a question of whether investments are in this or some other channel. It even stems from our Canada bond rate.

COMMISSIONER GIBSON: Am I correct in the broad impression I have that when the demand for mortgages is good it would tend to increase your assets and liabilities, even though this means tight money; and when it is not so strong, you may be less successful.

You see, this is almost the reverse of what the monetary authorities are trying to do, if you see what I am trying to get at.

MR. MACKENZIE: Could you re-phrase that question?

COMMISSIONER GIBSON: You give me the impression that when there is good demand for mortgages, somehow or other you try to find the money to meet that demand, and you are much more aggressive in obtaining that money. In other words, a tight money situation with high interest rates may not restrict your activities. The figures show that each year you had a larger volume over recent years. That situation

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may restrict your activities against what they might otherwise have been. But this is a hard matter to demonstrate, how much they are affected.

MR. MACKENZIE: In other words, what the Bank of Canada would like to do and tries to do by way of fixing interest rates does not affect or restrict our activities?

COMMISSIONER GIBSON: I am asking you that question?

MR. MACKENZIE: That is probably so. We have always been a fairly conservative company, and at a period when interest rates were high, when we had to pay a high rate for debenture money,we would just go out of business and digest what we had; in other words, we would go through a period when we would live on our investments. But that is not a policy that you can maintain today. Every company tries to be a little bigger and better each year. Bigness seems to be important today, and one is always fighting to make sure that the growth he has is a healthy one.

But added to this is the fact that your debenture investment is coming due all at one time; you have to maintain those to maturity; you have to meet them with a competitive rate. It is not necessarily good to pay 6 per cent for new dollars for investment in old debentures, but you hold them ---

COMMISSIONER GIBSON: You hold your own position.

MR. MACKENZIE: Yes.

MR. TAYLOR: I think this argument shows that we are a bunch of individuals. In the case of my company, in a period of high interest rates our loaning is curtailed because we can't afford to borrow debenture money at 6 per cent, for instance, and lend it at the basic loaning rate of 7 or $7\frac{1}{4}$ per cent.

So, I can't agree that all loan companies lend more heavily in a period of high interest rates. I know one company that it does not apply to.

MR. MACKENZIE: It doesn't apply to our company. Our activities have not been as great this year as last year.

MR. LECHARTIER: In 1957 we believe that the rates were high and we slowed down, but we found out at the end of the year that all our competitors had loaned much more than we had.

MR. CONNOR: We find in the east when money is more expensive we have to slow down our operations, but it does not become very effective until it gets up near the roof level.

COMMISSIONER GIBSON: If you are not pushing against the roof, so to speak, and demand is good, and interest rates are fairly high, and you haven't an extreme stringency, and do not have to pay 6 per cent for your money, you will be expanding.

MR. CONNOR: Yes.

COMMISSIONER GIBSON: You will agree to that.

MR. CONNOR: Yes.

COMMISSIONER GIBSON: We have been talking about interest rates -- what about the question of terms? How about the variation in terms of mortgage lending? Is there much variation as between times when you are really looking for business and times when other people are trying to get you to lend money to them?

MR. TAYLOR: You mean the repayment privileges?

COMMISSIONER GIBSON: Yes; and in the amount of appraisals, and in the proportion of cases where you go up to two-thirds. In other words, if people are coming to you looking for money, are your terms a bit stiffer than they would be if you were looking for mortgage business?

MR. TAYLOR: Yes. I don't think that the appraisal value varies appreciably, because it is done by a man who is professionally trained. We have dealt with that question. It is a competitive position.

COMMISSIONER GIBSON: We talk about competition between companies. How about it at a time when there is good demand for mortgages, against the time when demand is not very strong and you are out for business?

MR. TAYLOR: I think the same should apply. There should not be a variation between the two periods, and I don't think there is with a qualified appraiser. I do think there can be a difference in pre-payment privileges that are offered. For the loaning of up to two-thirds, I think competition

COMMISSIONER OLSON: We have been talking about interest rates -- what about the question of terms? How about the variation in terms of mortgage lending? Is there much variation as between times when you are really looking for business and times when other people are trying to get you to lend money to them?

MR. TAYLOR: You mean the repayment privilege?

COMMISSIONER OLSON: Yes; and in the amount of appraisal, and in the proportion of cases where you go up to two-thirds. In other words, if people are coming to you looking for money, are your terms a bit stiffer than they would be if you were looking for mortgage business?

MR. TAYLOR: Yes. I don't think that the appraisal value varies appreciably, because it is done by a man who is professionally trained. We have dealt with that question. It is a competitive position.

COMMISSIONER OLSON: We talk about competition between companies. How about it at a time when there is good demand for mortgages, against the time when demand is not very strong and you are out for business?

MR. TAYLOR: I think the same should apply. There should not be a variation between the two periods, and I don't think there is with a qualified appraiser. I do think there can be a difference in pre-payment privileges that are offered. For the lending of up to two-thirds, I think competition

has taken most of the companies to the two-thirds loaning level pretty generally.

COMMISSIONER GIBSON: Just automatically?

MR. TAYLOR: Too close to being automatic for the liking of us.

MR. MACKENZIE: We have resisted two-thirds. We have held to the 60.

I can't agree altogether with what Mr. Taylor has said. Some companies do put pressure on their branch managers; they give them quotas and they expect them to place that much money. That is why there is the difference in values and in rates.

Bigness seems to be more important that the net return on the investment. I think that may explain why there is a variance in rates between various companies.

This suggestion of 7 or 7¼ per cent being the prime rate, that may be true of the life insurance companies, but it is not the prime rate for people in our field. I don't think at any time the loan companies and trust companies can compete with the insurance companies. I think the insurance companies borrow money on longer terms and at cheaper rates. There is nothing to stop the life insurance companies from loaning at 6½ per cent today. They would still make a good return, compared to the rate they make on their bond portfolio.

COMMISSIONER GIBSON: You would say then that a company like your own, for example, might charge

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COMMISSIONER GIBSON: You would say then that a company like your own, for example, might o

a bit higher rate than another company, but you might only give 60 per cent of the loan, and you might give a different appraisal.

MR. MACKENZIE: No. We don't put our managers under pressure to find so much business. We take the business at the rate which we think is profitable to us. We turn down the business that we don't feel is first class business. We have resisted mortgages at 7½ per cent because we don't think it is good business.

COMMISSIONER GIBSON: You don't send your fellows out the way that has been described here.

MR. MACKENZIE: Absolutely not.

COMMISSIONER GIBSON: But this is part of the framework of competition in business.

MR. MACKENZIE: We all have our friends in business -- people who have been coming to us for a hundred years. That is where your business develops from for the most part.

COMMISSIONER GIBSON: Now, the form of term can be varied. This is a lag between the approval of the mortgage and the disbursement of the funds. Does this tend to be increased or decreased with the state of business?

MR. MACKENZIE: Do you mean on new construction, for example, where you have made commitments and it won't be taken up for a year?

COMMISSIONER GIBSON: Yes. You try to stretch it out when money is fairly tight.

MR. MACKENZIE: We get it out as fast as

a bit higher rate than another company, but you might only give 60 per cent of the loan, and you might have a different [illegible].

MR. McCORMICK: No. We wouldn't put our mortgages under pressure to [illegible] such business. We take the business on the [illegible] which we think is [illegible] to us. We [illegible] down the business that we don't feel is first class business. We have rejected mortgages at 4½ per cent because we don't think it is good business.

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MR. McCORMICK: [illegible], on the construction, [illegible], [illegible] you have [illegible] commitments and it wouldn't [illegible] be [illegible] necessary.

COMMISSIONER [illegible]: [illegible] to [illegible] it [illegible] [illegible] slightly.

MR. McCORMICK: [illegible] [illegible] out as [illegible]

we can where we are dealing with a large project and the money won't be needed until next year. We have to make provision for that and invest the money on a short term until it will be taken up.

COMMISSIONER GIBSON: Conversely, if there is lots of money around you try to get the money out as fast as you possibly can after the approval?

MR. MACKENZIE: Absolutely.

COMMISSIONER GIBSON: There would be a difference, though, wouldn't there, or would there be a difference?

MR. MACKENZIE: I am afraid I have lost you. In the rate or the terms?

COMMISSIONER GIBSON: No, in your efforts to put money out. If there is a shortgage of funds, do the people that you are lending money to, do they tend to try to spread the work out, the work that they have approval for, and thus make it last longer, to use your funds more slowly?

MR. MACKENZIE: That doesn't affect us to any degree at all. In our particular operation we haven't been doing that; I think possibly 5 per cent of our mortgage commitments are on new construction, or conversion loans. We prefer not to advance funds on progressive estimates. It is our idea not to do that. We like to feel that the borrower can do his temporary financing and come to some completion.

COMMISSIONER GIBSON: Now, how about the cash and liquidity position in relation to the business and credit conditions, monetary conditions; do you have some minimum standards of cash and liquidity for your whole operations below which you will not go? I have looked at your figures again here and there doesn't seem to be a great variance

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from year to year in your holdings of liquid assets. The ratio of liquid assets to total assets has shown some modest gradual decline over the period. Your thinking about this is that you let your liquidity down when the demand is strong, and if this is so, how far do you go?

MR. TAYLOR: I don't think so; I would think each company has its own standard that applies constantly, there is no variance in that standard of liquidity and, indeed, the reserves kept, I would think, by each member company are very considerably above statutory requirements, and I think that this is borne out by these figures.

COMMISSIONER GIBSON: Yes, but the statutory requirements which you are referring to are the requirements in connection with deposits, is this not correct, and you do give these figures, but if you look at all your assets including your mortgages and look at your liquid items, your cash, short-term securities, government bonds, does this sum of liquidity bear any fairly fixed ratio or is there any lower level of that liquidity ratio that you pretty well will not go below?

MR. TAYLOR: I am not sure I have the question sufficiently firm in mind. I think we all have a liquidity ratio below which we will not go.

COMMISSIONER GIBSON: Does this only apply, in your thinking, to the funds that come from your deposits?

MR. TAYLOR: No, I think it applies to all

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COMMISSIONER GIBSON: Does this only apply, in your thinking, to the funds that come from your deposits?

MR. TAYLOR: No, I think it applies to all

borrowings from the public; I think it applies very definitely to all borrowings from the public.

MR. MACKENZIE: It is apparently related to your savings.

MR. TAYLOR: Yes.

COMMISSIONER GIBSON: This point came up in the brief; it is related quite a lot to the ratio of quick assets to your deposits, but you don't say much, if anything, about the ratio of this to your mortgage ---

MR. TAYLOR: The reason it is brought out in that way is because the statutory requirements relate to demand money, but I think we must answer your question by saying there is a liquidity minimum that applies to all borrowings from the public.

COMMISSIONER GIBSON: What sort of a minimum is that?

MR. TAYLOR: I think that varies among the companies.

MR. MACKENZIE: Let us say that the liquidity is possibly more than necessary to meet the deposit requirements.

COMMISSIONER GIBSON: Does it vary from year to year under this?

MR. MACKENZIE: I think it can vary depending on a demand for mortgage money. You quite often will find that you have been putting all your dollars in mortgages and then you start to build up your liquid position again. Sometimes it is not easy to keep it in the exact balance which it was the year before.

COMMISSIONER GIBSON: But you don't think in terms of the percentages in this?

MR. MACKENZIE: Not as an exact thing, no.

COMMISSIONER GIBSON: Do individual companies have a percentage they bear in mind here?

MR. MACKENZIE: It could be.

COMMISSIONER GIBSON: Were you going to say something?

MR. LECHARTIER: In most cases it is because we always know in advance what amount we will have to pay.

COMMISSIONER GIBSON: It is like the mortgage and debenture section?

MR. LECHARTIER: Exactly.

MR. NORSWORTHY: I believe there is a point on this in Section 86, page 42.

COMMISSIONER GIBSON: Which is the particular point?

MR. NORSWORTHY: This matter of reserves; we feel that we should have the privilege of increasing the annual deduction of one-half of one per cent rather than one-quarter of one per cent.

COMMISSIONER GIBSON: Yes, I appreciate that, but I was trying to get at your thinking in terms of liquidity; this is really a different question.

COMMISSIONER BROWN: Could I ask something? You say that you keep this in mind when your reports to the Ontario people are just twice a year, so presumably you make sure that the half yearly figure is all right; is this watched monthly or weekly or

watched all the time?

MR. MACKENZIE: I don't mean to convey the suggestion that I say our liquidity position is always considerably more than is required for deposits. I don't think there is any restriction. I think if a company wanted to invest $99 of every $100 it had in term money in mortgages, I don't suppose it would be criticized as long as it kept its liquidity position for its depositors. It doesn't work out that way, of course, is that correct?

MR. FORTIN: Yes. Before the war, Mr. Brown, there used to be a quarterly report to the Department in Ontario. If the so-called percentage of liquidity gets very high, then you may question whether that loan company is doing its proper job; namely, making mortgage loans, but in the everyday to day operation the company must know -- and does know -- the flow of money coming into it for interest and principal repayments as well as those companies who issue debentures across the counter, and the amount of money which it will have to meet as well as its operating expenses, and what it requires to cover the whole gamut of its operations is the cash requirement, and that will fluctuate by seasons and from day to day depending on how hectic things are, but it will be more in total than the mere 20 per cent of deposits required by the legislation. Whether it is 25 or 30 becomes pretty well a matter of opinion of the management and the nature of the mortgage business and the nature of its borrowings that that particular

had all the [illegible]

MR. MACKENZIE: I didn't mean to convey the suggestion that I say our liquidity position is always considerably more than is required to [illegible]. I don't think that is a [illegible] proposition. I think if a company wanted to invest $[illegible] of every $100 it had in term money in mortgages, I don't suppose would be [illegible] [illegible] as to its liquidity position for the depositors. It doesn't work out that way, of course, is that correct?

MR. [illegible]: Yes, I believe that was, Mr. [illegible], there used to be a quarterly report to the Department in Ontario. If the so-called percentage of liquidity gets very [illegible], then you may consider whether that loan company is doing its proper job, namely, making mortgage loans, but in the [illegible], in any operation the company must know -- and does know -- the flow of money coming into it [illegible] [illegible] [illegible] repayments as well as those coming in [illegible] debentures covering the [illegible], and the amount of money which it will have to meet [illegible], as [illegible] [illegible], and [illegible] it requires to cover the whole [illegible] of its operations [illegible] [illegible], and that will fluctuate [illegible] [illegible] [illegible] [illegible] [illegible], [illegible] on [illegible] [illegible] [illegible] [illegible] will be much in [illegible] than the [illegible] per cent of deposits required by the legislation. Whether it is 20 or 30 per cent is pretty well a matter of opinion of the management and the nature of [illegible] [illegible] [illegible] as the nature of the mortgage [illegible] [illegible] particular

company is doing. Now, that will vary from day to day, but it will never be below the 20 per cent of deposits.

MR. TAYLOR: Let me say that the typical company would have to compare with the statutory liquid requirements their own directors' liquid requirements, which would be very considerably higher and which would be applied once a week. This is certainly the situation in our own company; once a week we apply what we call our own liquidity requirements, which are very substantially higher, and actually this would be the typical practice.

COMMISSIONER GIBSON: I can see that you put your deposit business and your liquidity position here in a particular position, and this is partly because of the statutory requirements involved, but the thing I am not clear on is in addition to this you have a lot of money on a debenture and a note basis and this is invested mostly in mortgages. Some of this money is taken on a one-year basis and some is taken on a five or six-year basis, and some on an even longer basis; doesn't the term of the money which you are taking bear on the amount of liquidity which you keep in this other business?

MR. TAYLOR: It does in our case very definitely. We have a different liquidity percentage applied to each type of borrowing; we have a different liquidity percentage that applies to each type of asset which we have against that borrowing.

COMMISSIONER GIBSON: I see. You try to

company is doing. That, that will vary from day to day, but it will [illegible] about one 20 per cent of deposits.

MR. [illegible]: Let me say that the typical company will [illegible] to compute with the statutory liquid requirements their own internal liquid requirements, which would be very considerably higher and which would be applied once a week. This is certainly the situation in our own company; once a week we apply what we call our own internal requirements, which are very substantially higher, and certainly that would be the typical practice.

[illegible]: I can see that you put your deposits [illegible] and your [illegible] in a particular column, and that is partly because of the statutory requirements involved. But one thing I am not clear on is in addition to this you have a lot of money on a day-to-day [illegible] and this is invested mainly in [illegible]. Some of this money is invested [illegible] for a term of five or six-year terms, and [illegible] even longer terms. Does this [illegible] the [illegible], when you are taking deposits [illegible] amount of [illegible] which you [illegible] in their other business?

MR. [illegible]: [illegible] does [illegible] definitely. [illegible] a different liquidity on certain [illegible] of borrowing; we have a different [illegible] on [illegible] of [illegible] each [illegible] sort [illegible] from that [illegible].

[illegible]: I [illegible] not try to

match these things in a broad sort of way?

MR. TAYLOR: I can only speak again for one company, but we have a very detailed breakdown once a week applying a liquidity percentage to each type of asset and each type of borrowing, and it varies. There is a different percentage which applies to your debentures from that which applies to your deposits. There is a different percentage that applies to a five-year debenture as against a two-year.

COMMISSIONER GIBSON: And you would gradually increase the amount of money which you are getting on one-year debentures and you would keep a somewhat higher position?

MR. TAYLOR: Yes.

MR. NORSWORTHY: There is another point also; it must not be overlooked that a great number of repayments are on a monthly basis.

MR. MACKENZIE: Yes.

MR. TAYLOR: And commitments, of course, must be taken into account because we have to make forward commitments.

COMMISSIONER GIBSON: You wouldn't say there is any standard practice in this?

MR. TAYLOR: I wouldn't think so.

COMMMISSIONER GIBSON: There are significant differences between company and company?

MR. TAYLOR: That would be my impression.

THE CHAIRMAN: I understood you to say, Mr. Mackenzie, that the mortgages that you take are

entirely on existing houses?

MR. MACKENZIE: In the main they are. Years ago we were in the housing business, for example, and we withdrew from that field in the early stages of the war, in 1940 or 1941 and never went back in, and most of the residential building -- I think a good portion of it -- in the last 15 years has been under Central Mortgage and Housing, and so we haven't participated in that. We do finance new construction from time to time but it is usually on a completion basis.

THE CHAIRMAN: Well, we have had certain representations from time to time as to extending the provisions of the N.H.A. to existing houses to give the owners of existing houses the same subsidies -- I suppose you could call it -- which they get under the regular N.H.A. mortgage. Would you care to comment on that, looking at the situation as a whole and not only from the point of view of your own company; would you say that generally speaking the demand for mortgages on existing houses is adequately met?

MR. MACKENZIE: I would prefer not to be the spokesman on that subject; this is one which we have given considerable thought to and I think that perhaps Mr. Fortin could express the views of our group.

MR. FORTIN: Well, Mr. Chairman, as the brief indicates the loan companies are opposed to the extension of the Act for the reasons set out in the brief. On a broader basis, as we seek to put forward

in the brief, an agitation has been going on since about 1953 and there have been a lot of differences of opinion about it, and essentially the idea is that if an existing house could be financed by N.H.A. you would be able to sell more new houses because there are people who will not buy a new house if they have to take back paper from the sale of the existing house. We recognize there will be those cases, but we do not think that they are anywhere as voluminous as one might suspect and we think that with the very relatively small down payment required under the N.H.A. that there will be very few cases where the amount of cash resulting from the sale of an existing house will be insufficient to put down as the cash payment for a new N.H.A. house.

There are other difficulties because the financing of an existing house by an N.H.A. mortgage may well mean a method by which the owner is enabled to re-finance an existing mortgage and with the proceeds buy a motor boat or take a trip to Europe; in other words, to capitalize the excess. There seems also to be no reason why the government should be called upon, or the taxpayer should be called upon to enable an investor in a house to recover his investment. It would be nice if the government would do so in respect of common stock investments, for example. While a house is a utility, it is also an investment and we don't believe that the idea of the government should be such that it would enable the investor in housing to take his money out because of the

[illegible] has been going on since [illegible] and there have been a lot of differences of opinion about it, and eventually the idea is that if an outfitting house could be financed by N.H.A. you would be able to deal with new houses because there are people who will not buy a new house if they have to [illegible] the [illegible] of the existing house. [illegible] will be [illegible], but [illegible] the [illegible] of [illegible] might [illegible] no [illegible] that [illegible] the very [illegible] under the N.H.A. [illegible] will be [illegible] where the amount of [illegible] existing house [illegible] as the [illegible] payment for a [illegible].

[illegible]

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higher ratio on mortgage loans or should he be able to take the profit which has accrued between the original cost of the house and the inflation in house prices.

There is the viewpoint that this is very difficult for the person who wants a big house and who has a big family. There are relatively few newer houses being built of that size and consequently that person must look to the existing houses as a means of housing his big family. Because of the pattern of financial lending being limited today to two-thirds it means that there may well be room or may be cause for some of the more or less shabby practice of bonusing and what has taken place in the second mortgage field.

Taking it all together, I think the big question depends on the philosophy behind it. If you believe, as was originally the case, that the purpose of the original Dominion Housing Act was to add to the fund of housing, namely, to limit it to new housing, and more latterly to that has been added the thought that new housing is the vehicle through which employment is given both directly and indirectly, and consequently under present conditions of stress, even our government is feeling that if you divert money from the financing of new housing to the financing of the existing house that you will cause less money to flow into new housing for a period of time, and that means that you will not be able to fight against unemployment to the same extent.

We as loan companies have taken the position, which we believe is sound, that through the encroachment of government in the housing field we gradually have had our type of business taken away from us.

We think there is one reason why we might suffer, and that is to provide new housing to people who have not got any, but if it comes merely to re-financing of existing housing, then we do not think public funds should be used for that purpose. In essence that is our position.

THE CHAIRMAN: I think that it is rather difficult to assess the various factors you have mentioned, but it seems the problem gets down to this, and it is very simple, and this applies to N.H.A. houses that are already built. Since they are built they are in the category of existing houses that were built before the days of the N.H.A. Are there adequate market facilities for houses generally?

MR. FORTIN: We believe there is.

THE CHAIRMAN: That seems to me to be the main part. Are houses made sufficiently marketable under the present facilities of your companies and trust companies and other institutions that are engaged in the housing field?

MR. FORTIN: I think, Mr. Chairman, that we still have a good housing market today and one must conclude that, taking Canada across the board, it is in a pretty healthy state. The main index is the volume of unsold new housing. It is just about the same as it was at this time last year. There is

o... venues in the housing field we gradually have had our type of business taken away from us.

We think there is one reason why we might differ, and that is to provide new housing to people who have not got any, but if it comes merely to refinancing of existing housing, then we do not think public funds should be used for that purpose. In essence that is our position.

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MR. TOWERS: We believe there is.

THE CHAIRMAN: That seems to me to be the main point. Are adequate market facilities available under the present facilities of your companies and trust companies and other institutions that are engaged in the housing field?

MR. TOWERS: I think, Mr. Chairman, that we still have a good working market today and the most complete proof, taking Canada across the board, is that it is in a pretty healthy state. The main index is the volume of mortgage lending. It is just about the same as it was at this time last year. There is

nothing startling in it. Admittedly there are areas where there may be a surplus and areas where housing is tight, but it has not been too impossible to sell a new house.

I believe we suggested in the brief that there is perhaps one difficulty, namely, that the ability of the owner of an existing house to sell it is perhaps not so much the method of finance as agreement on price. The price may be too high in a particular locality and consequently I think we would be prepared to agree that it has not been as easy to sell new houses in the last few years as it was a few years back. Neither is it easier to do a lot of other things but with the large volume of new starts and the volume of completed and unoccupied houses, in our opinion, the market is not out of the way.

THE CHAIRMAN: One of your recommendations is that the borrowing ratio be increased from $12\frac{1}{2}$ times the cash and reserves to 15 times.

MR. FORTIN: That reflects a request we made some years ago to the supervisory authority to have the 15 times rate. Fifteen times the paid-up cash and reserves is the formula. We felt that with all the limitations, restrictions and conditions applying to our business that a ratio of 15 times is not risky.

We recognize that limit arose from the desire of the original legislators to protect the depositors and debenture holders against excessive borrowing. We were unable to convince the authorities that the 15 times

nothing something in it. Admittedly there are areas where there may be a surplus, the areas where housing is tight, but it has not been impossible to sell a new house.

I believe we are together on the point that there is perhaps one difficulty, namely, that the ability of the owner of an existing house to sell it is dependent upon both the method of finance as agreement or price. The price may be too high in a particular locality and consequently I think we would be prepared to agree that it has not been as easy to sell new houses in the last few years as it was a few years back. Whether this encourages you to do a lot of other things out with the large volume of new starts and the volume of completed and unoccupied houses, in our opinion, the market is not out of the way.

THE CHAIRMAN: One of your recommendations is that the borrower's credit be increased from [illegible] times the [illegible] and increases to [illegible] times.

MR. [illegible]: That recommendation was a request we made some years ago to the Superintendent's office to have the 15 times [illegible] [illegible] [illegible] [illegible] used and necessary as the formula. We felt that with all the limitations, deductions and conditions applying to the business that a ratio of 15 times is not risky.

We recognize that [illegible] [illegible] arose from the desire of the original legislature to protect the depositors and debenture holders against excessive borrowing. We [illegible] to continue [illegible] [illegible] [illegible] that the 15 times

ratio was the better one to adopt. It was ten times, and what happened was we split the difference and it was made 12½ times. We are still of the view that a 15 times limit would not be uncalled for considering the nature of our business and all the restrictions and so forth. We believe that if we had that 15 times then we could service the mortgage market still better. I think our capital structure and reserves will support that figure.

THE CHAIRMAN: The average of the industry now is about eight times.

MR. FORTIN: Well, it is not perhaps quite that simple.

THE CHAIRMAN: I realize this is an average and therefore there might be some companies nudging the upper level, but the average is about eight times.

MR. FORTIN: For example, in arriving at the formula what we do is add to the published reserves the internal reserves, and this is reduced by the difference between market value and book value of your security holdings, and take off the mortgage reserves. This makes it very difficult to say that if you apply the borrowing to what appears in the published statement it is not necessarily eight or 12 times, but there are some companies which, because of the different nature of their business, do not quite fit into that pattern.

COMMISSIONER BROWN: What is the range now?

MR. FORTIN: I think we have some companies which are getting pretty close to the 12½ times, and some are considerably below it.

COMMISSIONER BROWN: In respect of figures on that, have you got a range? What is the maximum?

MR. NORSWORTHY: You mean the average company here?

COMMISSIONER BROWN: There must be some companies above that and some below it, if that is the average.

MR. LECHARTIER: Ours is two times our cash reserves, but I must say our position is slightly different to the others in this question. We do not take deposits. We borrow money on bonds, and we have been able to get some special privileges from the Quebec provincial government, including the fact that our bonds are accepted as trustee bonds in the province of Quebec, and we feel there is an obligation upon us to the bond holders and to the public to keep all the guarantees which were offered at the time when the bonds were placed. So far as our corporation is concerned we strongly oppose the raising of the 12½ times ratio.

MR. MACKENZIE: In the case of Canada Permanent I think we can grow another $100 million before we expand our capital. We are well within the 12½ times ratio.

MR. CONNOR: We were so close to it this summer that we had to issue new stock, but by doing that now we have dropped to eight or nine times.

COMMISSIONER BROWN: To what extent has this been offset by the companies that are near the ceiling by increasing their capitalization?

COMMISSIONER BROWN: In respect of figures on that, have you got a range? What is the maximum?

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MR. [illegible]: In the case of [illegible] I think we can now another $100 million before we [illegible] our capital. We are well within the $12\frac{1}{2}$ times ratio.

MR. [illegible]: We were so close [illegible] that we had to issue new stock, but [illegible] that now we have [illegible].

COMMISSIONER BROWN: To what extent has this been offset by the [illegible] — getting by increasing their capitalization?

MR. FORTIN: They have to stop taking deposits and selling debentures, or they have to increase their capitalization. It does not happen every year. I have forgotten when it was done. Was it five years ago?

MR. MACKENZIE: Four years, in 1958.

COMMISSIONER BROWN: I did not hear part of the answer.

MR. FORTIN: You increase your capital or plough in more earnings.

COMMISSIONER BROWN: The other thing which enters into this question of the reserves is the request on the other side to have your reserves on mortgages increased to 6 per cent on the basis of ½ per cent per year. These are rather contradictory ideas. On the one side you say you can afford to go up to the 15 times ratio and on the other you say you need more reserves. What are your reserves now?

MR. FORTIN: Mr. Brown,

The Income Tax Act stipulates an amount equal to 3 per cent of the mortgage portfolio exclusive of any NHA mortgages or real estate acquired through foreclosure. That is the amount deferred so far as payment to Ottawa is concerned. As your mortgage portfolio is reduced you must bring back the reserve set up on the amount of reduction into income / and pay the tax to Ottawa. It is not a reserve against which you may write off losses. It is a deferment of tax. It is unlike the reserve authorised by the Act

for the Quebec Savings Banks and the Charter Banks where the Minister determines what amount may be added to or taken away from the reserves for income tax purposes, against which the banks may charge, as we understand the law, a provision for losses and contingencies. We, as loan companies, do not do so. We have to write off to profit and loss the amount of actual losses. We may not make provision for contingencies in our income tax, but instead of that we have the privilege of withholding the payment of tax applicable to the extent of 3 per cent on the mortgage portfolio. If we make losses and we have not got enough portfolio -- pardon me, enough in the profit and loss account -- that is what we would like to have, a greater deferment of the tax so that when these losses come we have this 6 per cent. I may say this figure of 6 per cent was based on the experience of the companies for the period -- I think it was 20 years -- 1931 to 1951, or some such figure. In other words, we want it that the companies will not be in a position of having paid out in income tax, tax on an income which turns out not to have been an income, because the mortgage business is a long-term proposition. You know that some of the mortgages are not going to be good, but you cannot tell which, and it takes you 20 years to find out how much you are going to lose on them, because it is a long-term process.

Through the formula for ordinary trading companies, which can determine their losses once a year on their commercial accounts, we would have paid tax which would turn out not to have been payable,

for the Quebec Savings Banks and the Chartered Banks where the Minister determines what amount may be added to or taken away from the reserves for income tax purposes, against which the banks may charge, as we understand the law, a provision for losses and contingencies. We, as loan companies, do not do so. We have to write off to profit and loss the amount of actual losses. We may not make provision for contingencies in our income tax but instead of that we have the privilege of withholding the payment of tax applicable to the extent of 5 per cent on the mortgage portfolio. If we make losses and we have not got enough portfolio -- pardon me, enough in the profit and loss account -- that is what we would like to have, a greater deferment of the tax so that when these losses come we have this 5 per cent. I may say this figure of 5 per cent was based on the experience of the companies for the period -- I think it was 20 years -- 1931 to 1951, or some such figure. In other words, we want it that the companies will not be in a position of having paid out in income tax, tax on an income which turns out not to have been an income, because the mortgage business is a long-term proposition. You know that some of the mortgages are not going to be good, but you cannot tell which, and it takes you 20 years to find out how much you are going to lose on them, because it is a long-term process.

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and there is no way to recover that tax. Discussions took place for a great number of years with regard to the Income Tax Act which allowed the deduction of a reserve. That is the new Income Tax Act governing losses of the kind we might, as loan companies, meet because we have a long time to wait before we can determine our losses. This deferment of 3 per cent was granted to us and our request was that it be 6 per cent, and I might say it was not easy to get. We did eventually get the 3 per cent over a 12 year period.

The income tax reserve has no relation to our ability to borrow. In other words, the 15 times ratio is an ability to borrow related to the capital, whereas the so-called income tax reserve is 3 per cent of your mortgage portfolio as a deferment of tax pending the determination of losses, and I may say in addition that there is no requirement that that reserve be incorporated into your books of accounts. It is merely an income tax operation, an income tax paper work and not necessarily part of your accounting. It is not reflected in the balance sheet as an income tax reserve in the majority of cases. It is a working paper in making out your income tax reports.

COMMISSIONER BROWN: Have you any figures on what the average is now? Are all the companies up to 3 per cent?

MR. FORTIN: It is not probable.

MR. MACKENZIE: It will not be up to 3 per cent until the 12 years are expired. It has only gone

and there is no way to recover that tax. Discussions took place for a great number of years with regard to the Income Tax Act which allowed the collection of a reserve. That is the new Income Tax Act, governing losses of the kind we suffer, as loan companies, most because we have a long time to wait before we can determine our losses. This deferment of 3 per cent was granted to us and our request was that it be 5 per cent, and I might say it was not easy to get. We did eventually get the 3 per cent over a 12 year period.

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COMMISSIONER [illegible]: Have you any figures on what the average is now? Are all the companies up to 3 per cent?

MR. [illegible]: It is not possible.

MR. [illegible]: [illegible] will not be up to 3 per cent until the 12 years has expired. It was only gone

four years now.

COMMISSIONER BROWN: And as the volume is increasing all the time it is going to take more than 12 years.

MR. FORTIN: It is 12 years on the cob this year, and 12 years on the cob next year. You cannot catch up.

COMMISSIONER BROWN: This is an interesting discussion because in your brief you do not go into the reasons why it should be 6 per cent. Have you any figures to show why you arrive at that conclusion?

MR. FORTIN: Unfortunately I have not got them with me. I have a table which was a basis of the discussions with the Minister of Finance and the income tax people when we got this, which I think was in 19 --

COMMISSIONER BROWN: 1958, according to this.

MR. FORTIN: 1958, was it? We collected figures from the companies over 20 years as to what did take place in those bad years.

MR. TAYLOR: I think this can be said, Mr. Brown, that a rate of 5 per cent would be very close to the actual experience of member companies over a period of 25 years. This certainly has not applied in the last 17 years. The losses have been very low during the last 17 years. As a result of the inflation of property values there has been an increase in equity, but there is every reason to believe that this is not going to continue, and 5 per cent is a reasonable rate to have -- a reserve of 5 per cent or

6 per cent, which was asked for originally, and that is a more realistic approach to this than the 3 per cent that is now applicable.

COMMISSIONER BROWN: Would you agree 5 per cent is a reasonable loss figure over the long term?

THE CHAIRMAN: I am afraid I cannot hear the answer.

MR. MACKENZIE: Oh, yes. I am afraid, however, I have no statistics on that.

MR. LECHARTIER: I would agree if you include the service.

COMMISSIONER BROWN: The point I am making is that you are asking for an increase to 6 per cent without any supporting statistics.

MR. TAYLOR: In my thinking I acknowledge 5 per cent is the figure I carry. That is the base in my thinking.

MR. FORTIN: May I point out, Mr. Brown, this deduction determined for income tax is not limited to loan and trust companies. It is available to anyone whose main business is mortgage lending, so it is available to an individual who can establish that he is in the mortgage business. It does not apply specifically to loan companies.

COMMISSIONER LEMAN: If 5 per cent is needed for people who loan up to 60 per cent, I hate to think what it should be for those who loan up to 85 per cent or 90 per cent.

MR. FORTIN: Of course we do not do that business.

COMMISSIONER GIBSON: There is another factor. There is an average increasing amount of mortgage loans outstanding.

COMMISSIONER BROWN: I think this was a point made earlier, that on the basis of $\frac{1}{4}$ per cent it would take more than 12 years to get up to 3 per cent.

MR. FORTIN: You do not need 3 per cent on a N.H.A. holding portfolio.

COMMISSIONER BROWN: You write your specific loss each year off on the profit and loss account?

MR. FORTIN: That is right.

COMMISSIONER BROWN: But suppose you had heavy losses in the future, how would you make this reserve available?

MR. FORTIN: It is not available for losses. What would happen is that if your losses happen to decrease your portfolio, as they would, then you have to bring that deferment tax into income and you have to pay tax on it.

COMMISSIONER BROWN: In order to use this reserve you have to bring it back -- you do not use the reserve to cover losses?

MR. FORTIN: No. All you can do is bring this into income and write off another part of your portfolio.

COMMISSIONER BROWN: That would offset other funds which would not be taxable.

MR. FORTIN: We write off our losses

irrespective of their relation to the so-called increment you bring back into your reserves.

COMMISSIONER BROWN: You bring that back into general income?

MR. FORTIN: Yes, that is right.

COMMISSIONER BROWN: In effect it is available on an indirect basis?

MR. FORTIN: What happens is that you never pay income tax -- you never pay that amount of tax so long as your portfolio keeps increasing, irrespective of your losses.

MR. MACKENZIE: Half of the amount set aside for your reserve is the tax involved. If you have $3 million set aside, there is a possibility $1½ million would have to be paid in increased taxation if your portfolio is raised from nothing.

MR. FORTIN: You can only bring back into income the amount you wrote off the year before. Then you write off in the reserve what is calculated to a maximum of 3 per cent of the mortgage portfolio at the end of the year. It is around about sort of thing, but that is the way it works.

MR. MACKENZIE: Some of us were prepared to have a corporation tax of 40 per cent instead of 52 per cent.

MR. FORTIN: This is a deduction from income and not from tax. It is a deduction from income. You do not have to take it. You can still write off -- you must write off from profits losses on fore-

closed properties in your income calculated according to the Income Tax Act. If you take this reserve you may be in a situation where you may have to bring back into income something which was income in previous years and no longer is, and you would be hard put to find the money to pay the tax on it. It is purely an income tax paper proposition and the basis of our proposition, Mr. Brown, is that if the tax was easier on us, either through this or some other way, then we would have more money to support housing in the mortgage market.

COMMISSIONER BROWN: This is the general proposition -- if we all paid less in taxation we would have more to spend on other things.

MR. FORTIN: That is right.

COMMISSIONER BROWN: Mention was made of the 5 per cent loss ratio on a 60 per cent loan basis, and mention was made throughout your brief of the restriction of 66 2/3 -- at least some companies have said they are against your going up to 66 2/3. What would happen if the 66 2/3 restriction were removed?

MR. FORTIN: There was no restriction for Ontario chartered companies until April of this year. Ontario chartered loan and trust companies -- and I am talking about trust companies in respect of a company account of one-half the guaranteed account -- had no restriction. Those companies felt as a matter of good practice and good lending that they should stick pretty close to the 60 per cent. Some made 62, 64, 65, but generally speaking 60 per cent was pretty well the rate even when there was no 66-2/3 applicable for Ontario chartered companies.

MR. NORSWORTHY: We felt that way very definitely.

COMMISSIONER BROWN: It is now restricted in Ontario?

MR. FORTIN: Yes.

COMMISSIONER BROWN: Was it done at the request of the companies?

MR. FORTIN: The decision was that of the Province of Ontario, I assume, on the recommendation of the Registrar of Loan and Trust Corporations; not at our request. We had some mild objection to the limit being put in and restricting our liberty. There are always some cases where you can go higher because of special circumstances, but that was not pressed. It was the view of the minister in charge of the department in Ontario, and we went along.

COMMISSIONER BROWN: Would you be in favour of restrictions being removed?

MR. MACKENZIE: We don't resist this. We

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COMMISSIONER BROWN: Would you be in favour of restrictions being removed?

MR. MACKENZIE: We don't resist this. We

have made 66-2/3 per cent loans, but as a general rule we prefer to stick to the 60 per cent. We have seen real estate values shrink before. This business of appraisals is not an exact science: there are some things entering into it other than the bricks and mortar; the morale side has a great deal to do with it as well.

COMMISSIONER BROWN: Is this a restriction that is not really operative and is therefore not necessary.

MR. MACKENZIE: I think there are two views: there are those who would think that a 90 per cent loan is not bad; there are those who think that 80 per cent -- our group of people I don't think would like to go above 66-2/3 as we see the picture now; and some of our people would have preferred to remain at 60. That is the picture.

COMMISSIONER BROWN: But I still ask the question, if you are not going to 66-2/3, would you have any objection to this limit being removed entirely, or do you think it a good thing to have on to protect against your competitor?

MR. MACKENZIE: We have to be able competitively to land as much as people of the same relative quality as oursevles -- life and loan trust companies; otherwise you can't do mortgage business.

MR. TAYLOR: I think it is important there be a limit because it is essential a person have an equity in the property if they are to have any incentive at all to maintain their obligations relating

to it. If the restrictions were removed entirely, competition would gradually force that rate up. Today it is very difficult to loan at the prime rate for loans unless you are loaning in the 66-2/3 per cent area. I would think it is important there continue to be a limit, because the equity surely is the basis of the health of the loan. If the man has no equity, he can walk out.

THE CHAIRMAN: If you went beyond that you would be entering the second mortgage field in a sense; it would be a combined first and second mortgage.

MR. MACKENZIE: That is a very important point. Our debentures are recognized as trustee investments in most of the provinces. If it turned out that there were 90 per cent mortgages, that would be a violation of what we would think of as a trustee investment. In most of the provinces they are limited to 60 per cent of the value. I think that has been increased in most of the provinces; I think Nova Scotia is now up to 75.

THE CHAIRMAN: Yes, but on the other hand, wouldn't it be desirable to be able to lend on the basis of a sort of combined first and second mortgage, and be much more convenient for the customer to get from you one over-all mortgage at an appropriate interest rate, due to the fact there was that additional risk attached.

MR. MACKENZIE: You mean up to 80 per cent?

THE CHAIRMAN: Any per cent.

MR. MACKENZIE: If you could guarantee real

estate values would not fluctuate beyond a limit of 80 per cent, you could say yes, but we have seen situations where real estate values have shrunk considerably more than 20 per cent in depression periods.

MR. FORTIN: I think there is the other factor, that if the security is of a lesser quality, then the cost of the money to the lender is going to be more.

THE CHAIRMAN: Yes, I admitted that, that it would be; otherwise, the individual, if he had to raise the additional money, would have to go out and get a second mortgage at considerable expense.

MR. FORTIN: There are organizations now lending 80 per cent and charging 12 per cent.

THE CHAIRMAN: Well, whether that is right or not I would not know, but I was throwing it out as a question.

MR. FORTIN: Our class of people has traditionally done a first mortgage 60 per cent, irrespective of the fact that Ontario said no limit. The Superintendent over the years was inclined to take a rather dim view of mortgages that seemed to him, on his valuation, to push up, not necessarily at 60, but somewhere beyond that. The whole tendency has been for the safety of the depositor and the debenture holder to maintain a low ratio to value. There was no sanctity in 60: at one time it was 50, and now we have 66-2/3. The Dominion Government recognized that in its N.H.A. by providing that if you are making a bigger loan they give you a form of

insurance against taking the extra risk, which, in this country at least, was considered to be beyond the type of operation our companies carry. If you will recall, the original Dominion Housing Act was an 80 per cent loan, the Dominion Government putting up the difference between a 60 per cent loan and the 80 per cent loan, recognizing that the 60 per cent was something we could take the risk on. Of course, with the insured scheme we have gone quite a way beyond that.

COMMISSIONER LEMAN: Does that mean if there was a system of insurance for conventional mortgages there might be a case for going beyond two-thirds?

MR. FORTIN: Don't forget the lender has to pay for the insurance, and what he pays for that, is the difference in yield that he can get on his money. One of the conditions of getting the government insurance is that you lend at 6½ per cent. If 6½ per cent does not cover the margin between the cost of your money and the administration, then the insurance is not much good to you, because you can't tie up the two factors. That is why this class of company is not in the N.H.A., notwithstanding the guarantee insurance, because you can't fit in the cost and the return.

COMMISSIONER BROWN: This brings up one question in connection with N.H.A. mortgages: it has been suggested that the N.H.A. rates should be left to be subject to the market: what is your opinion on this?

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MR. [illegible]: Don't forget the lender has to pay for the insurance, and what he pays for that is the difference in yield that he can get on his money. One of the conditions of getting the government insurance is that you lend at 4½ per cent. If 4½ per cent does not cover the margin between the cost of your money and administration, then the insurance is not much good to you, because you can't tie up the two factors. That is why this class of company is not in the N.H.A., notwithstanding the insurance, because you can't fit in the cost and the return.

COMMISSIONER [illegible]: This brings up one question in connection with N.H.A. mortgages: It has been suggested that the N.H.A. rates should be left to be subject to the market. What is your opinion on this?

MR. FORTIN: We believe any rates artifically set are an impediment to the proper working of the money market. We agree that for a great many considerations, other than monetary, rates have been fixed. You are in the same position with respect to loans to farmers, fishermen, and various other peg rates, irrespective of what those rates might be under conditions of competition in the money market.

COMMISSIONER BROWN: What do you think would happen to N.H.A. and other rates if they were made subject to the market? What are your opinions?

MR. FORTIN: Today?

COMMISSIONER BROWN: Yes, that is what we are asking.

MR. FORTIN: Well, that $6\frac{1}{2}$ per cent rate today not being a profit -- I frankly don't know. It depends on a great many factors tied in with everything. I could say something today and find that tomorrow afternoon something has happened in the bond market that it is up the flue again. What I think is a proper rate this morning is not necessarily true this afternoon. That is one of the problems with a fixed rate that is pegged on considerations other than the management of money.

COMMISSIONER BROWN: That is what we are asking: what do you think would happen if the N.H.A. ceiling were removed?

MR. FORTIN: The market would set the rate.

COMMISSIONER BROWN: What would it be

relative to other rates today?

MR. FORTIN: I don't know.

MR. TAYLOR: I don't think the rate at the present time would change appreciably. I think there would probably be a spread of $\frac{1}{2}$ per cent between the conventional prime rate, which is $7\frac{1}{2}$, and the N.H.A. rate. The higher the rate the greater the risk. A conventional loan has a greater risk attached to it than an N.H.A. loan, and therefore there is bound to be some differential. I would think half of one per cent is not unreasonable.

MR. FORTIN: We have seen it at a quarter per cent at times.

MR. NORSWORTHY: Another reason might be the old saying of supply and demand: if there is a good quantity of money available, down it would come; and up it would go reversely.

COMMISSIONER GIBSON: You don't think if the N.H.A. rate were free you would be much more likely to be dealing in N.H.A. mortgages?

MR. FORTIN: If you were free to set your own rate and get it approved by Central Mortgage and Housing on the basis of the rate of interest, then you would have some N.H.A. loans at different rates of interest.

COMMISSIONER GIBSON: But we were talking about the N.H.A. rate being set by the market. When you suggest it may be very different from what it is now, that suggests to me you would be in the business more.

MR. LECHARTIER: There is also the rotation of money, which is slow, and also the control is very heavy, and also you have to make more reports -- much more than we feel are needed.

MR. TAYLOR: I think that is the answer: we would still be loaning for a long period as against borrowing for a short period, and to that extent would not fit into the operation.

THE CHAIRMAN: That concludes the hearing of Dominion Mortgage and Investments Association. We appreciate your presence here very much indeed. The discussion has been very helpful to us. We also would like to congratulate you on the brief you prepared, which discloses that a great deal of work and thought has been put into it, and we are very grateful to you indeed.

MR. TAYLOR: Thank you, sir. May I express our appreciation and say I hope at least we have demonstrated the fact there is no combine among the loaning companies. There is mutual respect, but certainly nothing in the nature of a combine.

SUBMISSION OF

THE NATIONAL HOUSE BUILDERS ASSOCIATION

APPEARANCES

Mr. W.M. McCance

Mr. J.B. Sawyer

Mr. John Caulfield Smith - Executive Vice-President.

THE CHAIRMAN: We shall now proceed with your brief, Mr. McCance. I believe you are the spokesman for this association.

MR. McCANCE: Thank you, Mr. Chairman. I would like to introduce the two gentlemen I have with me. Mr. J.B. Sawyer, a member of our association from Halifax, and Mr. John Caulfield Smith, the Executive Vice-President of the National House Builders Association.

THE CHAIRMAN: We will proceed immediately with questions. I understand you do not wish to make any preliminary statement?

MR. McCANCE: No, other than to clarify one point which sometimes seems confusing. I think it would be in order for me to make sure that everyone understands the position of the National House Builders Association. We are speaking on behalf of that segment of the construction industry which is the

builder investor as opposed to the other segment which is the general contractor, primarily. We feel quite significant differences in our interest in the market. We represent the sector where the builder is also the investor; he is investing his own money and, therefore, has a much more intimate interest, particularly in the mortgage feature, whereas the general contractor on the other hand -- and some of us, I may say, are also general contractors -- but today the general contractor is working on tender, taking an order to build a building for a client who probably is the investor. This is quite a significant difference, and we are speaking for the builder investor or merchant builder segment of the industry, primarily.

THE CHAIRMAN: Thank you.

COMMISSIONER LEMAN: Mr. McCance, one of the main points you make in your brief is where you express the fact that there is a lack of adequate base of private funds for financing residential construction in Canada, and quite a lot of your comments seem to surround this main point. If, as you say, the annual rate of personal savings in Canada appears sufficient to provide the base for financing housing in Canada -- and I think you express it nowadays as requiring about 975 million of new money each year -- what do you think is the fundamental reason that since the savings are sufficient that they have not tended to flow into this particular sector of demand for funds?

MR. McCANCE: Well, I think one reason, sir,

[illegible]

is the general contractor, primarily. We feel quite significant differences in our interest in the market. We represent the sector where the builder is also the investor; he is investing his own money and, therefore, has a much more intimate interest, particularly in the mortgage features, whereas the general contractor on the other hand -- and some of us, I may say, are also general contractors -- but today the general contractor is working on tender, taking an order to build a building for a client who probably is the investor. This is quite a significant difference, and we are speaking for the builder investor or merchant builder segment of the industry, primarily.

THE CHAIRMAN: Thank you.

COMMISSIONER LeMAY: Mr. McCance, one of the main points you make in your brief is where you express the fact that there is a lack of adequate base of private funds for financing residential construction in Canada, and quite a lot of your comments seem to compound this main point. If, as you say, the annual rate of personal saving in Canada appears sufficient to provide the base for financing housing in Canada -- and I think you express it nowadays as requiring about $[illegible] million of new money each year -- what do you think is the fundamental reason that since the savings are sufficient that they have not tended to flow into this particular sector of demand for funds?

MR. McCANCE: Well, I think the reason, sir,

is that there are other demands on personal savings than mortgages. As the brief points out, a very substantial proportion of the personal savings of Canadians is deposited in the chartered banks, and at the present time these are virtually withdrawn from mortgage lending, and this represents a considerable segment of the private savings as one example which is not available for mortgages.

COMMISSIONER LEMAN: Is this a malfunction of the capital market in Canada that has developed over a long number of years, or why did not that sector, claiming a right to a share of the Canadian savings, make sure it would attract the necessary funds?

MR. McCANCE: This seems to be traditional with our chartered banks as opposed to banks in other countries which have been very active in the mortgage field. Our banks did not enter the field until the National Housing Act of 1954 made it possible for them to do so, and then only because of the insurance feature of the Act. This, I understand, is primarily why they went in, and they have withdrawn, of course, for other reasons.

COMMISSIONER LEMAN: What I am really searching for is this: why have not institutions developed in Canada that would attract the necessary funds to serve that sector of the economy?

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COMMISSIONER LEMAY: What I am really searching for is this: why have not institutions developed in Canada that would attract the necessary funds to serve that sector of the economy?

MR. McCANCE: Well, I am not sure I can answer that. This probably occurred many years ago and I think it appears to be a point in history -- maybe it was Dr. Mackintosh who mentioned this -- a point in history where the building society function of our loan and trust companies seemed to diminish and the other depositories and personal savings became more attractive. I am not a student of the past picture of banking and I don't believe I am qualified to say why this occurred.

COMMISSIONER LEMAN: Concerning the same kind of problems, you explain in your brief that the main problem in house mortgage financing is the down payment and that you discovered from experience that once the transaction has been made that usually the owner can support the payments to service the loan and that the down payment is the main difficulty, and then you give us as an average $2,475 being required as a down payment, so to make it simple let us talk about $2,500. What is the $2,500 equal to on an average -- a broad average? Is it about two years of payments against the mortgage which he would take out?

MR. McCANCE: Yes, roughly, because the payments on the minimum house will be very close to $100 a month and that would be $2400 over a two year period. That is principal and interest, of course.

COMMISSIONER LEMAN: When people buy a new house do they do so just as soon as they start earning, or do they do it as soon as they get married, or when

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COMMISSIONER LEMAN: Do people buy a new house do they do so just as soon as they start earning, or do they do it as soon as they get married, or when

do they buy a house?

MR. McCANCE: Well, the average age in N.H.A., I believe, is around 34, and this would indicate that they are somewhere beyond the age of first being married and that this occurs somewhere a little later. I think possibly my prediction would be that this may even become later yet as time goes on. We are going to have a great many young married people on the market within a few years and I think it is going to be very, very difficult for them to become home owners, with their limited incomes and their lack of equity to put down on a new house.

COMMISSIONER LEMAN: Well, there again could we search for causes; this person who buys a house, you say on the average he has no difficulty saving the amount that he needs to save year by year to service the loan, but has been unable to start saving two years earlier in order to provide this down payment, is that it?

MR. McCANCE: I think this is a fact of life which is true; I don't know how we can explain this, but people just simply do not have the savings, and unless they are forced to save -- and home ownership is one means of forced saving, I believe -- they don't seem to have done this. They have spent the money perhaps on other things; they have bought a new car or bought other things prior to buying a house because there are so many attractions today for the consumer's dollar, and home ownership is something that is only done if one definitely sets out to attain

[illegible]

MR. [illegible]: Well, the average age is 8 H.A., I believe, is around 24, and this would indicate that they are somewhere between the [illegible] before married and then this occurs somewhere a little later. I think possibly my prediction would be that this may even become lower yet as time goes on. We are going to have a great many young married people in the market within a few years and I think it is going to be very, very difficult for them to become home owners, with their limited income and their lack of equity to put down on a new house.

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MR. [illegible]: I think this is a fact of life which is true. I don't know how we can explain this, but people just simply do not save the savings, and unless they are forced to save -- and home ownership is one means of forced savings, I believe -- they don't seem to save these days. They have spent the money perhaps on other things; they have to put a number of benefits [illegible] prior to buying a house, because there are so many attractions today for the consumer's dollar, and home ownership is something that [illegible] if one definitely sets out to attain

it and arranges the savings.

COMMISSIONER LEMAN: Do you think that one should or could form a judgment as to whether it is reasonable that people should be able to make that kind of down payment from straight equity without going into the second mortgage market or finding other sources of funds?

MR. McCANCE: Well, I think the statement we made was that the down payment is the crucial thing in house sales today; it is something that we have to recognize as a fact and it just seems that the interest rate or the rate of return is the secondary feature. Many people have good jobs, making good money, and they are able to handle the monthly payments but they just haven't accumulated this necessary down payment and I think a continued active market is dependent on continuing to be able to offer this same type of financing.

COMMISSIONER LEMAN: Do you have any of your own guesses as to how much the down payment nowadays is being financed through second mortgages or bank credit or some other source?

MR. McCANCE: Under the National Housing Act there would be very little. There is really no necessity because it is possible to go up under N.H.A. to as little as a 5 per cent equity in certain cases. In the case of the building being done with conventional mortgages, there is a considerable amount of secondary financing and third and sometimes fourth going on to supply the necessary funds to reduce the

person's equity.

COMMISSIONER LEMAN: I am thinking of this $2,475 figure which you quoted to us, and that is largely influenced by the fact that the N.H.A. loans are a predominant percentage of a total mortgage loans.

MR. McCANCE: My opinion would be that there is relatively little second financing, second mortgage financing, following the first N.H.A. mortgage.

COMMISSIONER LEMAN: That leads me to a question that I wanted to ask you as a representative of the industry as such. Do builders engage in second mortgage lending?

MR. McCANCE: I would say not voluntarily; often we are forced into it. Now this, of course, always has exceptions and it should be qualified.

Primarily the builder that we speak for is a person building for sale; his continued business depends on him being able to construct the houses and dispose of them and recover his equity. If he continues to leave this equity in -- and we have seen many cases in recent years where this has happened -- he eventually runs out of money and either has to stop building or ceases to be in business. Primarily he is not interested in retaining his equity in the building and consequently he would much prefer to get it out and only leaves it in when he is forced to do so, I think.

COMMISSIONER LEMAN: Well, you were talking about what he would like to do; I am asking you what

he does in fact do?

MR. McCANCE: I think that is the case.

COMMISSIONER LEMAN: Is there a large amount of it being done?

MR. McCANCE: There wouldn't be many builders leaving money in houses they have constructed.

COMMISSIONER LEMAN: You make a point here which is a little bit contradictory to some representations which we have from some other people, to the effect that the second mortgage market is a very active one and the rates being charged for second mortgages are very high. I think in some spots you even mention some as high as 40 per cent.

MR. McCANCE: That is right.

COMMISSIONER LEMAN: Do you have some real figures on a national basis to support this contention you make about the extent of second mortgage lending that goes on in the country?

MR. McCANCE: No, we didn't specifically prepare that feature; we are all aware of the existence of these mortgages and the form that they take and the effect they have on the purchaser, the borrower, resulting in obvious hardship. Of course, we have suggested some alternatives to this.

COMMISSIONER LEMAN: Well, you make this point in your paragraph 453 in your brief, but there is no indication of the extent of it, you just say that in certain cases it is very expensive and an undesirable development, but have you any idea of the amount of this activity?

MR. McCANCE: No, I couldn't present any figures to you today, Mr. Leman, on that extent.

COMMISSIONER LEMAN: You are just trying to make the point that it would be desirable to eliminate the need for any second mortgage money.

MR. McCANCE: That is right.

COMMISSIONER LEMAN: In that section?

MR. McCANCE: Yes.

COMMISSIONER LEMAN: And do you feel that the operation of the government under the N.H.A. Act have in their sector pretty well eliminated it?

MR. McCANCE: We believe so, yes.

COMMISSIONER LEMAN: Now, you make a case in your brief -- and now I am referring to the operations of the Central Mortgage and Housing Corporation -- you say that they have had a very unstabilizing influence on the availability of funds for housing. What has been the results of that? Besides affecting your industry, you make the point about your costs and bringing in the marginal people at times, but separate from the effect on your industry do you think that has had a result from the point of view of the buyer of a house, has it affected the cost of the house?

MR. McCANCE: I think that it affected the cost immediately afterwards. In 1958 which was the year in which the peak of housing was reached and it was pressed to the highest limit and there definitely was an over-production of houses, the market was over stimulated by the availability of mortgage money; it was

being forced on the builders and many entered the field who were not in it before and those who were in it produced more houses than they would ordinarily have done and then the effects were felt the following year; when the cut-back came we were left with many houses that probably should have been built in 1959 and could have been built equally at that time when there was probably immediately at that stage a benefit to the purchaser because there were so many completed and unsold houses on the market that it affected the prices and prices came down.

THE CHAIRMAN: What date was that?

MR. McCANCE: In 1959. Then we proceeded on into 1960 and the market picked up to some extent, the unsold houses were removed from the market. There was a reduction in building in 1959, there was at the beginning of 1960 a fairly substantial market again and there was a demand early in the year but at this time there was a great scarcity of money. The lenders had withdrawn, the government withdrew some additional funds and also imposed restrictions which they had not had on before and the whole market tightened up, so that in the early part of 1960 builders were unable to plan a programme for that year because they couldn't get direct loans for building themselves and the market tightened up, so in the course of two years the production dropped by almost one-third, and that is a very marked fluctuation in an industry which is attempting to operate on as even a level as possible and providing constant employment, and then towards the

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So, so that in the early part of 1960 builders were unable to plan a programme for that year because they couldn't get firm loans for putting money out and the market tightened up, so in the course of two years the production dropped by almost one-third, and that is a very marked fluctuation in an industry which is attempting to operate on as even a level as possible and providing constant employment, and from towards the

end of the year the money became available, towards the end of 1960, and by this time some of the demand had disappeared and it was also late in the year and it was difficult to arrange a housing programme and get organized again by this time.

I think in 1960 the result was that probably houses were costing more than they should have been because of the builders being unable to plan ahead and operate efficiently; letting off people and then having to take them back on again, and so on, and this has had a reverse effect. It depends on exactly what period you are speaking of as to whether the effect on the sale price is upward or downward, and I believe immediately after a surplus of building it is going to be down and when that building hasn't been continued at an even rate and the demand then re-occurs, it will then be up because of the scarcity.

COMMISSIONER LEMAN: After expressing some dissatisfaction with the way it has been handled, you go on to make a recommendation that one of the factors has been the controlled interest rate and you would like to see that free and let the market establish the level. That has nothing to do with the availability of funds, has it, from the government?

MR.McCANCE: Yes, it has quite a bit to do with it. The government sets the interest rate arbitrarily, and that rate is not kept flexible with other interest rates, particularly conventional interest rates or other bond interest rates, then the mortgage money tends to depart from the market and

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go into other fields. The interest rate on N.H.A. mortgages has to be sufficiently high at all times to be attractive to the lenders, otherwise they will withdraw and put their money elsewhere, so this in turn has a marked effect upon the industry.

We believe if the rate were more flexible this would be eliminated and that we would have a rate which would correspond to the other segments of the market and move up and down with them and consequently more or less stabilize to the attractiveness of N.H.A. loaning for the lenders, and that would eliminate this periodic jumping in and withdrawing which we have seen in the past due to a fixed rate which is set by the government and changed periodically but not always often enough and not always completely in response to demands for housing.

COMMISSIONER LEMAN: Now, you make the point in your brief that you would rather see less actual government loaning under the N.H.A. Act and just keep the insurance features, et cetera, and let the rate of interest be set by the market.

MR. McCANCE: That is right.

COMMISSIONER LEMAN: Let us assume that the government after analysing the availability of funds in the market for some time forward feels that some government money must keep on flowing; let us assume that for the purpose of discussion, and then if you freed the rate what would you then visualize should be the policy , keeping an annual amount of government money available in that market steady and let the

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COMMISSIONER LITTLE: Now, you make the point in your brief that you would [illegible] actual government lending under the N.H.A. Act and just keep the insurance features, as before, and let the rate of interest be set by the market.

MR. [illegible]: That is right.

COMMISSIONER LITTLE: Let us assume that the government after analysing the availability of funds in the market [illegible] feels that some government money [illegible] keep on flowing; let us assume that for the purpose of discussion, and then if you fixed the rate what would you then [illegible] should be the policy, [illegible] amount of government money available in [illegible] and let the

rate fluctuate?

MR. McCANCE: No, I think you will note in our brief that we have qualified our statement with respect to freeing the rate by saying we feel first of all that the supply of mortgage funds from the private sector should be such that they are competing for loans prior to the freeing of the rate. Now, this again is a conjecture which you must make as to what would happen. There is a possibility, without an ample supply of lenders or lending money, mortgage money, that the freeing of the rate might not have the effect we would expect, and we have said in the brief that it would appear that the base of mortgage funds should be adequate, and by the base we mean the base from the private sector, not the government, because, as it is mentioned, it is the direct lending which has caused most of the fluctuation in the industry.

COMMISSIONER MACKINTOSH: Why do you say the base of mortgage funds and not just the supply of mortgage funds?

MR. McCANCE: We feel that there are probably not enough sources presently eligible to loan for one thing on the money that is in the chartered banks and which is not available for the market. By some means or other we have made some suggestions and we feel that this money should be made available for mortgages or a proper proportion of it. Not all of it, of course, but a proportion of it should be available because it is a very large proportion of the total.

COMMISSIONER MACKINTOSH: Thank you very much.

COMMISSIONER LEMAN: As I read the recommendation in Section 2.23 you say:

> "NHBA advocates that the N.H.A. interest rate be freed to find its own level, as conventional mortgage rates do, just as soon as the base residential mortgage funds becomes sufficiently broad."

What sort of measures of this breadth would you suggest?

MR. McCANCE: We have suggested that the amount by which the base is too narrow is the amount by which the government has found it necessary to make direct loans in any one year. The position of the government is supposed to be that of a residual lender to fill the need over and above the amount which can be supplied by the private sector of lenders, and for many years past it has been necessary for the government to loan substantial amounts to make up for the lack of money from this other sector.

We believe if this sector could be extended to the point where the money was available, and I may add this is not an impossible situation, it is one which exists in the United States because the United States government does not make direct loans as ours does, it merely insures the loans and the housing market operates completely from the private sector of the economy. If this could be arranged in Canada then probably the freeing of the rate would operate as it does in other parts of the market.

As a matter of fact it could very well be, as the gentlemen before us said this morning, that the rate would operate right at the present time in this regard, that it would not depart very much from the present amount because after all these mortgages are insured. The risk is somewhat less on insured mortgages than it is on conventional mortgages and probably they should carry a slightly lower rate. It is quite possible they would remain where they are now if the market operated by direct lending through

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the government.

COMMISSIONER LEMAN: Mr. Chairman, I have some more questions relating to N.H.A. operations, but perhaps they could wait until after the luncheon adjournment.

THE CHAIRMAN: Very well. We shall adjourn now until 2 o'clock.

---At 12.43 the hearing took recess.

--- On resuming at 2.00 P.M.

THE CHAIRMAN: We shall now resume.

COMMISSIONER LEMAN: Mr. McCance, may we continue from where we left off. By the way, would you please be careful to keep your voice up in answering questions, for there are some members of the audience who I am sure would like to hear you. In paragraph 2.9 of your brief you state what you feel were the objectives of the National Housing Act, 1954 version, and then you say you do not think they were realized or achieved for very long after the beginning. Where do you get this? Is this your interpretation of what the National Housing Act was designed to do or does your statement stem from some policy pronouncement made by the government about it?

MR. McCANCE: Yes, this was outlined at the time of the passage of the National Housing Act by the then minister responsible for the Act, and he stated this, and I believe his actual quotation is quoted in paragraph 4.2 on page 17. It says:

> "At the time that the Act was presented to Parliament the minister stated 'The main object of the legislation is to broaden the supply of mortgage money by making that form of investment more attractive, increasing the number of lenders and making more money available for mortgage lending.'"

COMMISSIONER LEMAN: Yes, but this seems to point rather to means than to final objectives. What do you think were the final objectives, to get a

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COMMISSIONER [illegible]: Yes, but this seems to point rather to means than to final objectives. What do you think were the final objectives, to get a

bigger stock of housing built in view of what they foresaw was the trend in increases in population, and so on?

MR. McCANCE: I think the government realized at that time that it would have to find other sources for mortgage money if the projected increases in housing were to be met. It was quite obvious that prior to 1954 there were not enough lenders under the previous National Housing legislation to adequately serve this field, and I believe that was the fundamental reason for passing the Act; and it was also intended at that time that these funds, if possible, should come from the private sector. I do not think it was contemplated at that time that the government would enter this field of direct lending as exclusively as it has done since. At least, these are the statements of the government at that time.

COMMISSIONER LEMAN: If those objectives, which you feel were the first, were not realized for very long after the passage of the Act is it possible that perhaps the objectives had changed and they began to pay more attention to unemployment conditions, and that sort of thing?

MR. McCANCE: It would not appear so because later statements by the Minister of Public Works, as late as 1961, have borne out the fact that the objectives have not changed. These are quoted in the body of the text too. The fact that the Act achieved its purpose for only a short time was largely due to the fact that the chartered banks entered the field

at that time and did lend exclusively for a few years thereafter and then gradually withdrew again, so that we are now back to somewhere near the position that existed prior to 1954.

COMMISSIONER LEMAN: I am not challenging your statement at all ---

MR. McCANCE: No.

COMMISSIONER LEMAN: But I am just wondering whether I am sure that the objectives have remained stable right through the piece or have changed from time to time. That does not seem to be too clear from the performance.

MR. McCANCE: Well, in Mr. Walker's statements I think he amplifies and continues to make in effect the same statement.

COMMISSIONER LEMAN: Returning to what you believe should have remained the main objective, you suggest that therefore the C.M.H.C. should look upon itself as a residual lender in the mortgaging field. Could you list for us what you think its functions could be as a residual lender?

MR. McCANCE: Yes. As a residual lender it could lend in those areas of the country which are completely unserved by other mortgage lenders, and also it could assist or be a real residual lender in those areas where the conventional or regular mortgage lenders under the Act are not meeting the demand. The more remote sections of the country periodically suffer from a lack of mortgage funds. It is a tendency of the lenders under the National

Housing Act to make their loans available where they are cheapest to put out, where they are cheapest to service and where they are easiest to administer, and so forth. Those areas naturally are the ones closest to the offices where they have established, and by the same token these are usually in the larger centres. So, the more outlying sections of Canada suffer periodically from lack of mortgage money and sometimes they do not have any.

COMMISSIONER LEMAN: Would you see them operating what they call a "mortgage bank"?

MR. McCANCE: It is possible they could operate the mortgage bank. This has never been established in Canada and we have made no suggestions in this connection in our submission. This is one other possibility of an increased supply of mortgage funds, depending on how the bank is established, of course.

COMMISSIONER LEMAN: But you still would not advocate their lending when they felt that the volume of construction was not sufficient?

MR. McCANCE: This has had a very disrupting effect on the industry. It might be done mildly but to the extent it has been done in the past it is very disrupting because we believe that the considerations under which the money was made available were other than the need for housing at the time; considerations such as the need for additional employment and, conversely, at other times conditions which seem to indicate a reduction in government borrowing in connection with

Housing Act to make their loans available where they are cheapest to put out, where they are cheapest to service and where they are easiest to administer, and so forth. These areas generally are the ones closest to the offices where they have established, and by the same token these are usually in the larger centres. So, the more outlying portions of Canada suffer periodically from lack of mortgage funds and sometimes they do not have any.

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MR. McCANCE: It is possible they could operate one mortgage bank. This has never been established in Canada and we have made no suggestions in this connection in our submission. This is one other possibility of an increased supply of mortgage funds, depending on how the bank is established, of [illegible]

COMMISSIONER LAMB: But you still would not advocate their lending when they felt that the volume of construction was not sufficient?

MR. McCANCE: This has had a very disrupting effect on the industry. It might be more stable, but to the extent it has been done in the past it is very disrupting, because we believe that the consideration under which the money was made available was not only the need for housing at the time; considerations such as the need for additional employment and, correspondingly, at other times conditions which seem to indicate a reduction in government spending in connection with

construction. These are all right in themselves but it seems unfair that the residential construction industry should be the one that has to absorb these comings and goings on its own account, and it has been very difficult for the industry to do so.

COMMISSIONER LEMAN: What puzzles me, Mr. McCance, is that I am wondering if through the device of freeing the interest rate and letting the market establish an interest rate for the C.M.H.C. loan, you would then avoid these fluctuations?

MR. McCANCE: We believe we would because there is a good indication that during this time the government was doing its direct lending, and this is illustrated on page 63, the rate of conventional lending carried on at a more or less uniform rate. It did not show the same wild fluctuations that the C.M.H.C. did. Line "B" on the chart on the last page shows the conventional mortgage loans , and they follow a much less violent pattern. It is our contention that the same thing would happen if the C.M.H.C. interest rate were free. We would not be faced with these violent fluctuations occasioned by both direct lending and introductions of the banks and their subsequent withdrawal. These are the factors that cause the rate of lending to fluctuate so wildly.

COMMISSIONER LEMAN: This seems to put you in the category of people who believe in free markets, to a certain extent.

MR. McCANCE: I think that is a fair statement.

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the factors that cause the rate of lending to fluctuate [illegible].

COMMISSIONER LYNCH: This seems to put you in the category of people who believe in free markets, to a certain extent.

MR. McCANCE: I think that is a fair statement.

COMMISSIONER LEMAN: In that light, then, I am a little puzzled by the suggestion you make in paragraph 2.21 where you seem to be for one reason or another inclined to introduce a little paternalism. Why would you worry about what the seller of a house should do with the funds he obtains through getting a mortgage loan?

MR. McCANCE: Well, on March 5 of this year our Association presented a brief to the Minister of Public Works advocating strongly that the government extend the provisions of the National Housing Act to include the insuring of mortgages on existing housing. We did not ask for government money; in fact, we were asking not that they put it in but rather to offer the insurance provisions of the Act. At that time the minister felt the demands of the existing house market might be so extensive that they would siphon a considerable amount of money away from the new market and therefore cause a reduction in new house building and, consequently, a reduction in employment. At that time we discussed with him the possibility of placing certain limitations on who could be eligible for an insured mortgage on an existing house. This is merely one of the suggestions, amplified again in the body of the brief, as to a possibility for reducing this flow at least until such time as it could be determined how extensive it was, for it is only conjecture as to how much money will be siphoned away. In the United States, if I may use that example again, under the Federal Housing

COMMISSIONER PEPPAR: In that light, then, I am a little puzzled by the suggestion you make in paragraph 2.21 where you seem to be for one reason or another inclined to introduce a little paternalism. Why would you worry about what the seller of a house should do with the funds he obtains through getting a mortgage loan?

MR. McCARTHY: Well, on March 5 of this year our Association presented a brief to the Minister of Public Works advocating strongly that the government extend the provisions of the National Housing Act to include the insuring of mortgages on existing housing. We did not ask for government money. In fact, we were asking not that they put it in but rather to offer the insurance operations of the Act. At that time the Minister felt the demand on the existing home market might be so extensive that they would direct a considerable amount of money away from the new market and therefore cause a reduction in new house building and, consequently, a reduction in employment. At that time we discussed with him the possibility of placing certain limits on those who could borrow, the for an insured mortgage on an existing house. This is merely one of the suggestions, amplified again in the body of the brief, as to a possibility for reducing this flow at least until such time as it could be determined how extensive it was, for it is only conjecture as to how much money will be siphoned away. In the United States, if I may use that example again, under the Federal Housing

Administration they have had equal financing or insuring of mortgages by F.H.A. since 1934. At the present time about two-thirds of all the money that F.H.A. loans is going on existing houses and one-third on new houses. So it is an extensive thing. However, we feel it is sufficiently important to warrant a start, and one way might be to impose certain limitations but not necessarily these but, as I have explained, they came about through our discussions with the government on this very matter.

COMMISSIONER LEMAN: But you argue somewhere else in your brief that if insured mortgages were extended to existing houses, this would tend to stimulate the construction of new housing.

MR. McCANCE: We believe that it would. Here again it is a matter of conjecture. We have a very strong precedent in this in communications which we have had with the Administrator of the Housing and Home Finance Agency, who undoubtedly subscribes to this belief. We think it would. There are many complex factors involved, however. There are a great many things to be said pro and con, but this is something we think would be very beneficial. We believe there would be some stimulation. How great it would be is problematical.

COMMISSIONER LEMAN: At any rate, you do argue this?

MR. McCANCE: That is right.

COMMISSIONER LEMAN: You believe it would do that, so that would meet the government objection

administration they have had equal financing of insuring of mortgages by F.H.A. since 1934. At the present time about two-thirds of all the money that F.H.A. lends is going on existing homes and not on new houses. So it is an expensive thing. However, we feel it is sufficiently important to warrant a study, and one way might be to impose certain limitations but not necessarily those that, as I have explained, they have about through our discussions with the government on this very matter.

CONGRESSMAN TALLE: Did you say somewhere else in your brief that if insured mortgages were extended to existing houses, this would tend to stimulate the construction of new housing?

MR. McGUIRE: We believe that it would. Here again it is a matter of conjecture. We have a very strong precedent on this in conversations which we have had with the Administrator of the Housing and Home Finance Agency, who made it quite clear as to their belief. We think it would. There are many complex factors involved, however. There are a great many things to be said pro and con, but this is something we think would be very beneficial. I believe there would be some stimulation. How great it would be is problematical.

CONGRESSMAN TALLE: At any rate, it might help, might it not?

MR. McGUIRE: That is right.

CONGRESSMAN TALLE: You believe it would do that, so that would meet the government's objection

in a large part?

MR. McCANCE: Yes.

COMMISSIONER LEMAN: If you are right, it would meet their objection in a large part.

MR. McCANCE: That is right.

COMMISSIONER LEMAN: So, in paragraph 2.21, when you start pestering the poor seller of the house it is a concession to the fears of the government, that is all?

MR. McCANCE: That is right.

COMMISSIONER LEMAN: It is not really your idea?

MR. McCANCE: No. We did not originally suggest this. I may say that these restrictions do not exist in the United States. There are no differences between new and existing houses in their Act.

COMMISSIONER LEMAN: Mr. McCance, I do not wish to monopolize the questioning here but there are two or three questions I should like to ask you in relation to the remarks you make about chartered banks.

COMMISSIONER GIBSON: May I ask a question in connection with the subject you have been discussing, Mr. Leman?

COMMISSIONER LEMAN: Yes.

COMMISSIONER GIBSON: In proposing that existing housing mortgages be insured under the N.H.A., I take it you are saying that you do not think existing free market mortgages are doing an adequate job there, is that correct?

MR. McCANCE: That is correct, sir.

COMMISSIONER GIBSON: Why? What is the matter with this market? How is it falling down and what do you see as the defects in the market for mortgages on existing houses?

MR. McCANCE: In the first place there is a certain amount of discrimination, shall we say, as between the person who wishes to go and purchase a new house today as opposed to a person who might wish to live in a more central section and buy an existing house, where the existing house is limited in its financing to the amount that can be raised either on a conventional mortgage or on a conventional mortgage supplemented by a second mortgage. We immediately get into this problem of having excessively high rates through the discount system, and so forth, which is common with the second mortgage. It seems unfair in a way that our whole federal legislation should be, in effect, forcing people into the outskirts of our cities to the exclusion of the more central sections, and this is in effect what is happening because this is where the new housing is built and this is not always best for the people who would like to have houses. Again we must agree with the fact that this down-payment is a very crucial factor, and I think I have ample support for the fact that the down-payment is much more of a factor in new house sales than is the interest rate. So we arrive at the point where the prospective purchaser of an existing house finds that he must have a considerably greater cash equity in order to purchase that house or must assume very

heavy financing. This results in the fact that he finds himself unable to purchase the house because he cannot carry the load or he cannot raise the necessary financing because he has not got the down-payment. His only recourse is to go and purchase a new house financed under the National Housing Act. It raises the question: is this making the best use of our stock of housing?

THE CHAIRMAN: What happens to that old house that he did not buy?

MR. McCANCE: The owner remains in it, sir.

THE CHAIRMAN: Perhaps he reduces the price until he can get rid of it. Perhaps someone else comes along and is prepared to pay the original price he puts on it. Is it not a matter of supply and demand, that if he wants to sell the house or must sell the house for some reason then he is going to sell it for what he can get?

MR. McCANCE: Quite often the house, through a number of years, has become unsuited to his needs.

COMMISSIONER GIBSON: Then if he has to sell it he has to take what the market will pay.

MR. McCANCE: In order to get enough money back to buy another house -- that is quite often difficult to do.

COMMISSIONER GIBSON: Why should he get enough money out of an old house to buy a new one?

MR. McCANCE: Well, he might want to buy another old house more suited to his needs.

COMMISSIONER GIBSON: I do not see that you accomplish very much.

MR. McCANCE: Well, in general, we have two classes of older houses. We have a great number of houses, small houses, which were built after the war. They were occupied by young families and now those families have grown up and the houses are too small for them. They find it extremely difficult to get enough equity out of their old house, and this is without selling the house at a great profit. In fact, they find it difficult to get the money they put into it out of it because the mortgage has been considerably reduced over the years. Likewise, for people with limited incomes, we could not duplicate the building of those houses at the same prices today. If our suggestion were adopted this would open a large supply of modestly priced houses to those who could afford them and who are now unable to get them.

COMMISSIONER GIBSON: Very well. Where are

these people living now?

MR. McCANCE: They are probably tenants.

COMMISSIONER BROWN: What would this do to the prices of those used houses?

MR. McCANCE: In the first place we would not anticipate there was going to be such a flood of money for this purpose that every existing house in the country is going to be refinanced. I think this would be a fairly selective thing on the part of the lenders because they have only a limited amount to put out. I do not envisage the flood gates being opened, by any means. This would probably take place quite slowly and I do not believe the fact that the down payment is going to be lower it will necessarily affect the selling prices of the houses because we are admittedly in a very competitive market at the present time. The market is extremely competitive, both in new houses and old houses.

THE CHAIRMAN: It is not as if there were a number of used houses lying on the market, up for s ale and could not be sold.

MR. McCANCE: There are, in certain areas, but it is not true nationally. Certain areas do have this condition.

THE CHAIRMAN: Does that not in itself indicate there is a fair market?

MR. McCANCE: The market is certainly as busy physically as it has been. It is continuing at a fairly steady level at the present time, but not at

the peaks of a few years ago, which probably were unnatural anyway.

COMMISSIONER GIBSON: You are saying, in effect, that this would produce greater mobility in housing and a more fluid market situation, and therefore a better use of housing?

MR. McCANCE: That is right.

COMMISSIONER GIBSON: You are saying that this is the real difference between the movement of existing houses and the movement of new houses. Basically you are saying there is nothing else, that this is the difference?

MR. McCANCE: Except that there is one other question which we have not dealt with fully. It is the question relating to the conventional mortgage and the second mortgage, which is perhaps a little away from this. This is pretty well formally established by people who have had experience in the field. If it is acceptable, sir, I would read you four brief paragraphs from a report of the Administrator of the Housing and Home Finance Agency in the United States who has commented quite reasonably on this very matter.

THE CHAIRMAN: Is it a long statement?

MR. McCANCE: It is just four brief paragraphs, sir. This is from a statement by Dr. Robert Weaver, Administrator of the Home Finance Agency, and I must say they have been doing this in the United States for a great number of years. He says:

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THE CHAIRMAN: Is it a long statement?

MR. McCANCE: It is just four brief paragraphs, sir. This is from a statement by Dr. Robert Weaver, Administrator of the Home Finance Agency, and I must say they have been doing this in the United States for a great number of years. He says:

" In addition to Mr. Hardy's observations --"

And I may say Mr. Hardy is the FHA Commissioner --

"-- it may be of value to note the importance of existing home financing to the sale of new homes and the aid which adequate existing home finance gives in the upgrading of housing quality and standards of occupancy.

Many potential purchasers of new homes are present owners of existing homes. In large part, their resources for down payments on new homes consist of the equity in their present home, which can be made available only by advantageous sale to a new owner. Adequate financing on reasonable terms for the purchaser of the existing home is, of course, crucial to the arrangement of a profitable sale for the prospective new home buyer.

To the existing home purchaser, the availability of effective financing may mean his best opportunity to improve his housing standards by moving from less satisfactory accommodations elsewhere -- perhaps requiring no greater monthly expenses for housing in his new home than in the previous unit.

Other families who already

"own existing homes may have their best chances to modernize and improve that home if adequate existing home mortgage funds are available at reasonable cost."

I think Mr. Weaver is in a position to make that statement with the experience that they have had.

COMMISSIONER GIBSON: Is there any particular reason why the government, having insured the sale of the new house, when it comes to the sale of the old house, should go a further step and take the risk involved in that? Is it your motivation to get a better demand for new houses?

MR.McCANCE: I think our motivation, Mr. Gibson, is to create a market which is more fluid. We do have another motive in as much as our industry today, in effect, cannot take trade-in. We have no trade-in market in the housing business, because if the original owner is unable to sell his house we, as builders, cannot take his house in and dispose of it. It is like the car business. If they did not take your old car in I do not know how many new cars people would buy. Perhaps the parallel is not exact, but the main fact is that existing houses are just stagnant. You cannot move them. The terms are so unattractive that it is not possible for builders to trade in houses under the present circumstances.

COMMISSIONER LEMAN: Mr. McCance, you suggest that N.H.A. mortgage insurance be

own existing homes may give their best chances to modernize and improve that none if adequate existing home improvement funds are available at reasonable cost.

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COMMISSIONER GIBSON: Is there any particular reason why the government, having financed the sale of the new house, when it comes to the sale of the old house, should go a further step and take the risk involved in that? Is it your motivation to get a better demand for new houses?

MR. [illegible]: I think our motivation, Mr. Gibson, is to create a market which is more fluid. We do have another motive in that the industry today, in effect, cannot take trade-in. We have no trade-in market in the housing business, because if the original owner is unable to sell his house we, as builders, cannot take his old house in and dispose of it. It is like the car business. If they did not take your old car in I do not know how many new cars people would buy. Perhaps the analogy is not exact, but the main fact is that existing houses are just stagnant. You cannot move them. The terms are so unattractive that it is not possible for builders to trade in houses under the present

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COMMISSIONER [illegible], for instance, you suggest that N.H.A. mortgage insurance be

extended to existing houses, and you say in the same manner and to the same extent as mortgages are presently insured on new houses under the act. That seems to me a little over-simplification. Is it quite that simple? Under the new housing provisions and regulations of C.H.M.C. there are quite a lot of inspection systems, and quite a lot of standards set out. Do you think they could develop the same kind of standards for existing houses?

MR. McCANCE: I do not think it would be necessary, Mr. Leman. I think the thing to do is to establish a good appraisal system so that the corporation would be able to appraise the houses and set a proper value on them. The amount of the new mortgage would only be based on their appraisal. It would not have any relation to the owners ideas of what his house might be worth. This again is similar to what happens in the United States. The appraisal is a closer thing and it depends on the appraisal, and the amount is based on this appraisal.

COMMISSIONER LEMAN: But the terms would not necessarily be the same?

MR. McCANCE: They are identical in the United States. The term and the amount and the interest rate are the same. There is no difference and I think again we come back to the matter of the appraisal.

COMMISSIONER LEMAN: What would you do about a 35-year mortgage on a house that is already 50 years old.

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[illegible]

COMMISSIONER LEMAN: What would you do about a 25-year mortgage on a house that is already 50 years old.

MR. McCANCE: I think, again, the appraisal is the determining factor. This is apparently the way it works.

COMMISSIONER LEMAN: And these would be also for the same percentages, up to 80 per cent and 90 per cent on existing houses?

MR. McCANCE: Yes, that is right.

COMMISSIONER LEMAN: What, in your view, has prevented the development of a commercial insurance system for mortgages?

MR. McCANCE: Well, I am sorry I cannot say. I do not know. Other industries have certainly done it. That is true. Perhaps the volume of funds involved in residual mortgages is the factor that has prevented its developing commercially.

COMMISSIONER LEMAN: Too large, you mean?

MR. McCANCE: Too large, yes. Under the N.H.A. act there is a fund of some $90 million now accumulated in the mortgage insurance fund to back up these government insurance mortgages, and incidentally this fund is paid for by the borrower because he pays 2 per cent of the mortgage in each case, and this is part of the funds.

COMMISSIONER LEMAN: He would do that under the commercial system too?

MR. McCANCE: Yes.

COMMISSIONER LEMAN: So that the premium take-in would be quite large?

MR. McCANCE: It is, but it is not at the

MR. [illegible]: I think [illegible] the [illegible] factor. This is [illegible] the [illegible].

COMMISSIONER [illegible]: [illegible] would be also for the same percentages, up to 95 per cent and 90 per cent on existing houses.

MR. [illegible]: Yes, that is right.

COMMISSIONER [illegible]: [illegible], in your view, has prevented the development of a [illegible] insurance system for mortgages?

MR. McCANCE: [illegible] I must say I do not know. [illegible] certainly done it. That is true. [illegible] volume of funds involved in residual mortgages in the [illegible] has prevented it developing commercially.

COMMISSIONER [illegible]: [illegible] large, you mean?

MR. McCANCE: Too large, yes. Under the N.H.A. act there is a fund of some $40 million now accumulated in the mortgage insurance fund to back up these government insurance policies, and incidentally this fund is paid for by the borrower. He pays 2 per cent of the mortgage in each case, and that is part of the costs.

COMMISSIONER [illegible]: He would [illegible] under the commercial system too?

MR. McCANCE: Yes.

COMMISSIONER [illegible]: So that the premium take-in would be quite large?

MR. McCANCE: It is, but it is not as the [illegible]

government expense and it is not at the lender's expense. I think the statement was made this morning that it was at the lender's expense, but I believe it is at the borrower's expense.

COMMISSIONER BROWN: Have you discussed at all or investigated at all the possibility of insurance for only that proportion that is above the standard ratio?

MR. McCANCE: Yes, we have given a great deal of consideration to that. It seems a reasonable proposition, in our thinking, that if conventional lenders are now prepared to give up to 66 2/3 per cent without insurance, that the proportion above that, to whatever limit it goes, might be the portion which should carry the insurance, and not the whole loan.

COMMISSIONER BROWN: Have you discussed this at all with other people? Have you other people's ideas about it in the mortgage business?

MR. McCANCE: Yes, we have. However, I understand there were certain drawbacks to this, particularly when the original borrower comes to re-sell the mortgage because his market is somewhat limited due to the fact that certain investors can only invest in mortgages which are 100 per cent insured, and this is a disadvantage, though how great a disadvantage I do not know. That was really the reason why the N.H.A. insurance was raised from 98 per cent to 100 per cent to overcome this objection. There

are many NHA mortgages that are not 100 per cent insured.

COMMISSIONER BROWN: But would this open the way to people who are lending under standard mortgages to lend on a higher basis?

MR. McCANCE: It would seem to be the case.

COMMISSIONER BROWN: Have you discussed this with people in the conventional mortgage field?

MR. McCANCE: I cannot say our agency has. We have discussed it with the government. It would seem a valid argument, though, for protecting the interests of the investors in these companies if the mortgages were insured above that. It would seem a reasonable precaution to protect the investors.

COMMISSIONER LEMAN: In paragraph 2.10, Mr. McCance, you list the reasons, in order of precedence, why you believe the banks, after having been heavily in N.H.A. mortgage loans, substantially withdrew from the field, and you list them as follows: the ceiling on interest rates,

that banks from their experience feel that NHA mortgages are not really 100 per cent insured, and then you talk about the liquidity of mortgage, or at least the marketability and liquidity. I am a little puzzled by your ranking and by your statement

that the banks have, from their experience, felt that N.H.A. mortgages are not really 100 per cent insured. What other loans do they make in substance that are 100 per cent insured? Why would that make the banks so squeamish?

MR. McCANCE: That, I do not know. It is probably an impression of mine. I feel that the banks went into the matter of mortgage lending with some hesitance and some reluctance. I think they were probably talked into it in the first place and during their period of lending, at least at the level with which we came in contact with them, at the branch level, there seemed to be a great disinterestedness on the part of the banks to stay in this business. Perhaps it is due to the fact that they had not been in it for years before.

They did not have staffs that felt comfortable in this business and they did not have the desired equipment to deal with it. It seemed to us that they were breathing a sigh of relief the minute that they were able to get out of it. This is my impression, but I think we should state it. There is also some question as to whether they would re-enter the field, even today, if the 6 per cent limitation were, in fact, lifted and if the bank acts were amended. We are not totally convinced that they would come back in force.

One indication of this is that during the last year their existing holdings of mortgages decreased by some $18 million and they did not make any attempt to replace these even though they could have done so at the 6 per cent limit. This would indicate they have a declining interest and that is

why, in our submission, we have suggested that in the event they do come back into mortgage lending that possibly some other means could be found to attract the personal savings of a portion of Canadians which would ultimately find its way into mortgage lending.

COMMISSIONER LEMAN: I am not a banker myself but I am just a little surprised that you seem to think that their reason was because the loans were not 100 per cent insured. Most of their other lending activities involve a certain amount of risk and if you consider the yields they could get in this field, as compared with their yields in other fields, it seems strange they would not accept one single bit of risk in this sector.

I am only questioning whether this is a true reason.

MR. McCANCE: Probably a more significant one is that they had built up what they considered to be a prudent portfolio of mortgages, and when they reached that point they felt they should stop.

THE CHAIRMAN: Did they not stop because of the 6 per cent ceiling?

MR. McCANCE: They had started to withdraw prior to that.

COMMISSIONER LEMAN: I do not think we need to labour that point too much, but practically in the same breath that you suggest the banks should be re-interested in mortgages, in paragraph 4.43 you refer there to an alternative -- not necessarily an alternative but an additional suggestion, and you suggest the passage of legislation which would permit the establish-

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COMMISSIONER LEMAN: I do not think we need to labour that point too much, but practically in the one breath that you suggest the banks should be re-interested in mortgages, in paragraph 4-43 you refer there to an alternative -- not necessarily an alternative but an additional suggestion, and you suggest the passage of legislation which would permit the establish-

ment of building and loan associations and a mortgage banking system similar to that in the United States. Now, the discussions we had this morning would seem to indicate that there were loan companies in Canada that started out as building societies and loan associations, and these practically disappeared as such. They have taken some other form. What do you think that these proposed building societies and loan associations would do that the existing loan companies and other sources of mortgage funds, institutional sources, do not do? What would be the particular form that these things would take that would enable them to service this market well?

MR. McCANCE: It is our understanding that in Great Britain in particular the building societies make high percentage loans. 90 per cent is not at all unusual on loans which are not insured. This, of course, is not taking place here. Likewise in the United States their savings and loan associations loan actively under their federal housing administration. Our loan and trust companies, by and large, do not participate actively, and they explained to you this morning why they do not. We are only making suggestions that are drawn from our observation that the large accumulation of private savings in the banks is not at present available for mortgage lending, and we are merely suggesting that other possible agencies should be established so that people can put their savings in other institutions which would lend on mortgages.

ment of building and loan associations and a mortgage banking system similar to that in the United States. Now, the discussions we had this morning would seem to indicate that there were loan companies in Canada that started out as building societies and loan associations, and these practically disappeared as such. They have taken some other form. What do you think that these proposed building societies and loan associations would do that the existing loan companies and other sources of mortgage funds, institutional sources, do not do? What would be the particular form that these things would take that would enable them to do this job better?

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COMMISSIONER LEMAN: How much of a shift would you visualize?

MR. McCANCE: I would not think it would be too great over the short term. Over the long term it might be. It certainly is not a short-term movement. I do not think these things would spring up overnight and be successful because our people have a long-standing habit of putting their money in the bank, and I think this would be very difficult to overcome.

COMMISSIONER LEMAN: These building and loan societies would take deposits, would they?

MR. McCANCE: No. Our association has had visits from representatives of these institutions. Mr. Smith might be able to give you a little more detail than I, since he contacted them directly and they outlined to him some of the reasons why they could not function in Canada at the present time under existing legislation.

MR. SMITH: Well, Mr. Chairman, that is quite a subject on which to comment. I am not at all sure I have sufficient information on which to advance an explanation. It would seem that the patterns of mortgage lending evolved quite differently on the North American continent from the manner in which they evolved in Great Britain, and in turn those devices established in Canada were different from those in the United States.

I have a cousin who is manager of one of these groups in Cleveland, and I would say the big

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difference between the Canadian arrangement and the American one, perhaps lies in a different state of mind. In the United States there seems to be, by and large, more of an eagerness, an anxiety to formulate business conditions that will result in the creation of a favourable climate for mortgage investment by these institutions. They seem to go out of their way in their efforts to insure that the federal financing devices are in line with what they conceive to be their best interests and those of the people whose savings they accept. The result is that of 1,200,000 or 1,300,000 starts annually in the States, about one million are financed by these institutions.

It would seem logical that if we cannot have access to the savings of the banks in this field of investment, consideration should be given to establishing an alternative method. That method might not take any of these particular forms. It might be something distinctively Canadian, but we are not competent at this stage to define the actual framework of such an institution.

COMMISSIONER LEMAN: This morning we heard from loan companies who explained to us the difficulties they encounter in gathering funds for relending. What could you do for these institutions that would make it easier for them to do this?

MR. SMITH: Is not the decision up to them to solve this particular problem rather than requiring the House Builders Association to do so?

COMMISSIONER LEMAN: I did not mean to suggest that you should solve the problem, but in your brief you say there should be legislation that would permit the establishment of this kind of institution. I am just wondering what kind of institution, in your view, is necessary.

MR. SMITH: The one that would provide the additional mortgage money in keeping with Canada's housing needs.

COMMISSIONER LEMAN: That is begging the question. What do you visualize would be the extent of the shift of funds out of the banking system that should move to these other institutions to service your ideal mortgage market, and which sectors should suffer from it?

MR. SMITH: I think Mr. McCance earlier stated that the amount of shift should, in effect, constitute the volume of business now being done directly by the government in this field except for a small residual section in those areas in which the conventional institutions are not interested.

COMMISSIONER LEMAN: That is what puzzled me, because you claimed that the mortgage market on existing houses is not sufficiently active, does not make funds readily available in sufficient amounts and on good enough terms. Then you say that the amount of the shift should be measured by what the government has had to pump into this sector. The two do not seem to jibe. To reach the ideal conditions you visualize it would have to be more than what the government supplies?

MR. McCANCE: That is correct. We made the statement that up to now the amount that has been short has been the amount the government has had to put in, but if it is contemplated to enter the field of financing existing houses, undoubtedly this would not be enough; there would be a larger amount required.

THE CHAIRMAN: We have heard quite a bit from the other groups before us about the cost of financing houses, interest rates, and the rather narrow spread that the mortgage companies make out of it. We haven't heard anything about the sort of spread the builders make out of it -- whether the builders have a way of making a much bigger spread than the people lending the money. Perhaps a little shift in emphasis may solve the problem.

MR. McCANCE: I think the record over the last couple of years has indicated possibly the spread the builders were making was not a prudent one. They were not making enough to tide them through the difficult days. It is always true that in the more affluent periods you have to accumulate enough to tide you over these starvation periods; the number of bankruptcies which has occurred has been an indication that this has possibly not taken place. The market, I can assure you from my personal experience in travelling across the country, is an extremely tight one at the present time.

THE CHAIRMAN: Perhaps at the present time, but there are times when it has been quite the reverse;

it has been a very lucrative business.

MR. McCANCE: We have possibly passed that time for quite a few years to come because of the fact that the supply has virtually caught up with the demand in most areas. In fact, it has exceeded it in some, and this, in itself, has taken more of the market. Competition automatically takes care of it.

THE CHAIRMAN: Then, why do you need so much more in the way of funds for mortgages if supply has caught up with it?

MR. McCANCE: We have a lot of people who simply cannot afford houses yet; they haven't got this down-payment. They cannot enter the present market.

COMMISSIONER LEMAN: I think earlier didn't we establish that by saving for a year or a year and a half they would have the down-payment?

MR. McCANCE: This is quite possible, yes.

COMMISSIONER LEMAN: Saving exactly the amount they would have to use to support the loan once they got it.

MR. McCANCE: This might be theoretically possible. Of course, in the meantime, while they are doing this, they are having to pay rent. So, we cannot apply the whole amount of their monthly payment towards savings. They have to live. Sometimes rent is more expensive than owning a home. So, it is a losing proposition. As soon as they get into a house they start to save money.

COMMISSIONER LEMAN: What I am groping for

is this: I am just wondering to what extent the difficulty of raising the down-payment is really in the long run, if you don't take just one year in isolation -- does it really affect the amount of new housing provided in the country?

MR. McCANCE: Absolutely. The down-payment is the crucial thing to the borrower. The interest rate, within reason, is secondary. To the lender it is very important. Half of one per cent to the borrower is of very little importance compared with being able to buy a house with a small down-payment and get suitable accommodation.

COMMISSIONER LEMAN: Let me ask my question differently: how long do you think you will postpone the building of a new house, in terms of months or years, by letting the down-payment get saved? Will you postpone that purchase for one year or two years, or how long? That house will get built and be bought sometime, won't it?

MR. McCANCE: I suppose if the incentive is sufficient. These other attractions competing for the consumer's dollar today are so urgent, I am afraid, that many of these take precedence over owning a home. Once home ownership is achieved, however, there is a certain element of compulsory saving involved, and from that point on the home owner begins to accumulate. I don't think I could state how this would work out, because I think it would vary in various circumstances.

COMMISSIONER GIBSON: Mr. McCance, you say

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COMMISSIONER LEMAN: Let me ask my question differently: How long do you think you will postpone the building of a new house, in terms of months or years, by leaving the down-payment just where it is? Will you postpone that purchase for one year or two years, or how long? That house will get built and be bought sometime, won't it?

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COMMISSIONER [illegible]: Mr. [illegible], you [illegible]

that a certain amount of the savings deposits at the banks should be diverted into mortgages, and, of course, in certain years a sizeable amount of their funds have been going into mortgages. In the years in which they have not been, since 1954 when the Act was changed, I think it is fair to say there has been a condition of tight money, or something approaching that, which means that their funds are fully used, and their loans are high, and so on. How do you divert funds in these circumstances? What should be cut back? Should more credit be created? How do you cope with this problem? You are making a proposal: how would you do it?

MR. McCANCE: Certainly, this has to be attractive from the banks' standpoint or they would not do it. That would seem fundamental. It was apparently sufficiently attractive during the years when the loan had interest in it.

COMMISSIONER GIBSON: They had money in those years.

MR. McCANCE: Over and above their demands?

COMMISSIONER GIBSON: Over and above their immediate requirements to service their regular customers, yes.

MR. McCANCE: Well, I assume we could only say that many of customers of the banks, possibly, would be the ones who would be making the demand on the bank for the mortgage money, and the bank, therefore, would have to decide whether it was advisable to put the money out in the form of personal loans to its

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MR. McCANCE: Well, I assume we could only say that many of the customers of the banks, possibly, would be the ones who would be making the demand on the bank for the mortgage money, and the bank, therefore would have to decide whether it was advisable to put the money out in the form of personal loans to the

customers or in the form of mortgages to its customers. This would be a decision for the bank.

COMMISSIONER GIBSON: They do make such decisions and you don't like it -- at least, you don't like it, yourself: what would you do about this?

MR. McCANCE: The reason, I gather, for them discontinuing is that they have built up this large portfolio, and also they are prevented from doing so at the moment.

COMMISSIONER GIBSON: Well, money has been pretty tight for a while.

MR. McCANCE: True.

COMMISSIONER GIBSON: There has not been enough to go around.

MR. McCANCE: But they have continued to make personal loans. Presumably, they would have made mortgage loans if they could have done so: some personal loans, some mortgage loans. As it is now, they are making virtually no mortgage loans.

COMMISSIONER GIBSON: I am not questioning your facts. I am asking, what would you do about it?

MR. McCANCE: I don't think we can do anything about it. The bank has the money and they are going to decide how to put it out. All we can say is that there should be some means made available for them to do so.

COMMISSIONER MACKINTOSH: Isn't the legitimate limit of your argument, really, that the seeker of mortgage funds ought to be put in a position where he competes on an even basis with the other

customers or in the form of mortgages to its customers. This would be a decision for the bank.

COMMISSIONER GIBSON: They do make such decisions and you don't like it -- at least, you don't like it, yourself; what would you do about this?

MR. McMANUS: The main reason, for their discontent is that they have built up this large portfolio, and also they are prevented from going at the moment.

CONGRESSMAN GIBSON: Well, money has been pretty tight for a while.

MR. McMANUS: True.

COMMISSIONER GIBSON: There has not been enough to go around.

MR. McMANUS: But they have continued to make personal loans. Presumably, they would have made mortgage loans if they could have done so. Some personal loans, some mortgage loans. As it is now, they are making virtually no mortgage loans.

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MR. McMANUS: I don't think we can do anything about it. The bank has the money and they are going to decide how to put it out. All we can say is that there should be some means made available for them to do so.

COMMISSIONER [illegible]: [illegible] legitimate limit of your argument, really. That the seeker of mortgage funds might to be put in a position where he competes on an even basis with the other

people asking for bank credit?

MR. McCANCE: I think so.

COMMISSIONER MACKINTOSH: And beyond that there may be some presumption you are going to have a supply of housing where you anticipate the whole rate of saving in the country has to be raised to provide the funds; but in so far as your words might seem to imply there was a great supply of idle savings accounts in the banks that somehow could not get out and could not be attached for mortgage purposes, this won't stand up?

MR. McCANCE: No. I think we recognize that, Dr. Mackintosh, and if we implied this, I think it is incorrect. We realize the funds are fully used. The point we are making is that at the moment they are prevented from entering the mortgage field, and we believe that some would. We don't know how much, but some certainly would if the banks were permitted to make these loans. We are a little doubtful about how much, but I believe the demands of their customers might influence their decision as to which way they placed their money.

COMMISSIONER BROWN: Perhaps I might ask a question in the same tenor: you suggest the Bank Act be amended to permit the chartered banks to make N.H.A. loans even above 6 per cent: what would your reaction be to the suggestion that the 6 per cent ceiling be abolished for all loans and let the banks have complete freedom to decide?

MR. McCANCE: From our standpoint, I think

people asking for bank credit?

MR. McGONIGLE: I think so.

there may be some question, if you are going to have a supply of housing credit [illegible] the whole gist of saving in the country has to be relied on to provide the funds; but in so far as your words might seem to imply there was a great supply of idle money [illegible] in the banks that borrowers could not get out and would not be attracted for mortgage purposes, that won't stand up.

MR. McGONIGLE: No, I don't think we thought that, Dr. [illegible], and if we implied this, I think it is incorrect. We realize the funds are fully used. The point we are making is that at the moment they are prevented from entering the mortgage field, and we believe that some would. We don't know how much, but some certainly would if the banks were permitted to make these loans. We are a little doubtful as to how much, but I believe the demands of their customers might influence their decision as to which way they [illegible]

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MR. McGONIGLE: From our standpoint, I think

this would be quite all right. How the banks feel about it, I don't know.

COMMISSIONER BROWN: We will have an opportunity to ask the banks about this.

MR. McCANCE: Yes. We tried to confine ourselves to the parts relating to our industry, because we didn't want to encroach on any other, and we have dealt with the housing industry and suggested they be allowed to do so under N.H.A.

COMMISSIONER BROWN: On the other hand, presumably your members are also customers of the banks from the point of view of borrowing funds, so presumably you do have a direct interest in this question of ceiling on bank lending rates.

MR. McCANCE: That is right.

COMMISSIONER BROWN: Well, what do you think about this?

MR. SAWYER: I think, Mr. Brown, that the banks are in the same position as any person out competing for money. They should be allowed to set a savings rate or a lending rate which would enable them to fulfill the function intended. I was listening to the arguments this morning when the discussion was revolving around the maximum interest rate charged for loans, and I was hoping one of the Commissioners would have asked the question, what would the same question have been about 20 or 30 years ago, because I would have hoped to hear the answer from people experienced in the mortgage business. I think they used the figure somewhere between 7 and 8 per cent,

conventional, which they could receive without getting any psychological barrier. However, that same figure, say, some 30 years from now -- does the psychological barrier move with changing conditions? I don't presume to know the answer, but when we set a fixed bank rate of 6 per cent, which has been in effect for a number of years, maybe the psychological barrier has been removed and it should be higher. If it was raised higher, they could pay more savings interest which would command more savings into the banks, and I assume that as the level of income of Canadians is going up, then, the savings level should be raised.

COMMISSIONER BROWN: But you again used the expression "the limit raised higher": I am asking about the removing of limits.

MR. SAWYER: Well, I didn't mean that. If we are asking in our particular industry for removal of the N.H.A. limit, and how to find this free flow, why should not other institutions be allowed the same way?

COMMISSIONER LEMAN: We have talked about the difficulties that borrowers have because of the insufficiency of the supply of funds in this sector. How about the builders themselves? We haven't got any figures in your brief as to how they finance. They do use the banks a great deal to finance their operation between the start of a construction project and the completion of it, don't they?

MR. McCANCE: Yes.

COMMISSIONER LEMAN: What sort of adequacy

[illegible]

any psychological barrier. I wonder, that same figure, six, some 20 years from now -- does the psychological barrier move with changing conditions? I don't presume to know the answer, but when we set a fixed bank rate of 6 per cent, which has been in effect for a number of years, maybe the psychological barrier has been removed and it should be higher. If it was raised higher, they could pay more savings interest which would command more savings into the banks, and I assume that as the level of income of Canadians is going up, then, the savings level should be raised.

COMMISSIONER PORTER: But you again used the expression "the limit raised upwards": I am asking about the removal of limits.

MR. SAVAGE: Well, I didn't mean that. If we are asking in our particular industry for removal of the N.H.A. limit, and not to limit this free flow why should not other industries be allowed the

[illegible]

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COMMISSIONER LEMAN: What sort of advances

of funds did the industry encounter in that regard?

MR. McCANCE: We find no difficulty in that respect, Mr. Leman. The brief was circulated to all our 48 associations across the country and there seemed no indication this was a particular problem of the housing segment of the industry.

COMMISSIONER LEMAN: You have explained at certain times when there was great activity under N.H.A. that some marginal people were attracted into the business, but they had to go out again.

MR. McCANCE: That is right.

COMMISSIONER LEMAN: Suppose we eliminated those, whomwe will call the "in-and-outers": is there a typical form of financing a housing construction operation from the point of view of a percentage equity in it and the percentage of borrowed funds, etc.; or is there nothing typical?

MR. McCANCE: I rather imagine there isn't anything typical, but an example would be that I believe the builders in most cases -- most prudent builders -- limit their activity to the amount they, themselves, can finance over and above the mortgage. This has been the downfall of many who have exceeded this prudent limit: they have built ten houses when they could finance five, and this results in their eventual going out of business. These are the people who, we regret to say, probably should not have been in there in the first place. It is like any other business: if you run a business on a sound basis there should be no difficulty in this respect, because

funds did the industry encounter in that regard?

MR. [illegible]: We find no difficulty in that respect, Mr. [illegible]. The brief was circulated to all of 25 [illegible] across the country and there seemed no indication [illegible] problem of the housing segment of the industry.

COMMISSIONER [illegible]: [illegible] at certain times when there was great activity under N.H.A. that some marginal people were attracted into the business, but they had to get out again.

MR. [illegible]: That is right.

COMMISSIONER [illegible]: [illegible] we attempted [illegible] "thin capital" [illegible] three a typical [illegible] of financing a housing construction operation from the point of view of [illegible] equity in it and the percentage of borrowed funds. [illegible]

MR. [illegible]: I [illegible] there isn't anything typical, but an example would be this: I believe the builders in most cases -- most prudent builders -- limit their activity [illegible] they, themselves, can finance [illegible] above the mortgage. This has been the downfall of many who have exceeded this prudent limit: they have built more houses than they could finance [illegible] result [illegible] eventual going out of business. [illegible] period [illegible], we regret to say, [illegible] should not have been in there in the first place. [illegible] business. If [illegible] there should be no difficulty [illegible] regard, [illegible]

your production is limited to your financing.

COMMISSIONER LEMAN: If we talk about a
stock of unsold houses, who do you feel should carry
this stock?

MR. McCANCE: The builder who built them.

COMMISSIONER LEMAN: The builders themselves?

MR. McCANCE: Yes. That does not say they
haven't pre-arranged some financing to do this, but
this is all part of their business and they should
anticipate this can happen and should gear themselves
accordingly, and I think most of them do.

COMMISSIONER LEMAN: Well then, the reason
I was asking you those preliminary questions was to
try and get some idea from you of what the effect of
changes in interest rates has been on builders? When
interest rates do go up, do they tend to slow down
their operations and stretch out the construction
programme they have started? How do they react
to these movements?

MR. McCANCE: Which interest rates are
you referring to?

COMMISSIONER LEMAN: Interest rates in
general, either for the funds they have to get, say,
from banks to finance the operation, or a change in
the mortgage rates?

MR. McCANCE: I do not believe the bank
interest rate would influence the rate of production
at all. The cost of money is of very little
significance. It is the demands of the market that
are the significant things: how many units can you

produce, and how many units can you sell. This is the type of gamble -- calculated gamble, if you will -- which has to be made because of the fact it takes a considerable length of time to produce a housing unit and the market can completely change from the time you start until the time you finish. This is a calculated risk which people in the business have come to expect and try to judge.

The effect on the industry of a change of N.H.A. interest rate, though, can be quite significant, because if a builder has built his year's production of a certain house and it is just coming into the market, and the N.H.A. rate drops from $6\frac{3}{4}$ per cent to some lower figure, he naturally is at a competitive disadvantage to some extent in selling with someone who just builds at the lower rate. There is a certain influence there. It is not a primary one, as I said before, but it is a disadvantage.

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The effect on the industry of a change of FHA interest rate, though, can be quite significant, because if a builder has built his year's production of a certain house and it is just coming into the market, and the FHA rate drops from 6¾ per cent to some lower figure, he naturally is at a competitive disadvantage to some extent in selling with someone who just builds at the lower rate. There is a certain difference there. It is not a primary one, as I said before, but it is a disadvantage.

COMMISSIONER LEMAN: Would you say that the range within which the N.H.A. rates have moved has not had a significant effect on the demand factor you have mentioned?

MR. McCANCE: No, I do not think the rate has influenced the demand appreciably at all.

COMMISSIONER LEMAN: So there again we would be only influenced once we get to hit that psychological ceiling that was referred to.

MR. McCANCE: Yes, and the N.H.A. rate is below the psychological ceiling by a few points.

COMMISSIONER LEMAN: Some builders under certain circumstances will not build until they have found a customer, whereas at other times they will build on spec. Is this not so?

MR. McCANCE: The great bulk of housing built in Canada by merchant builders is built on speculation. The great majority of housing built in this country is originated by builders and not by home-owners. Up to 75 per cent of the housing units in this country are originated by merchant builders, people of our industry, and only the remainder are initiated by home-owners.

COMMISSIONER LEMAN: The risk of having to carry an inventory of unsold houses for "X" months or even for a year after completion is greatly influenced by the interest rate on the mortgage that has been taken out, be it an N.H.A. mortgage or any other mortgage?

MR. McCANCE: No; the change of rates within

the limits in which they have been moving in the last few years is a very insignificant part of the monthly payment. The monthly payments would not vary more than a couple of dollars by a change of one-half of one per cent. It is inconsequential.

COMMISSIONER LEMAN: It does not have much influence?

MR. McCANCE: There is very little influence.

THE CHAIRMAN: Thank you very much, gentlemen, for the discussion that you have provided this afternoon.

MR. McCANCE: Thank you, Mr. Chairman.

THE CHAIRMAN: We appreciate your brief and we appreciate your presence here today.

SUBMISSION OF

CANADIAN CONSTRUCTION ASSOCIATION

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APPEARANCES

T. M. Saunders	-	Honorary Treasurer.
T. G. Fuller	-	Honorary Secretary.
J. E. Laflamme	-	Quebec Vice-President.
H. R. Montgomery	-	President.
S. D. C. Chutter	-	General Manager.
Mark Stein	-	Chairman of Legislation & Taxation Committee.
Keith Sandford	-	Taxation and Business Research. C.C.A.

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THE CHAIRMAN: Mr. Montgomery, I do not know whether you wish to make a preliminary statement or have us proceed with questioning.

MR. MONTGOMERY: First of all, sir, I should like to express our pleasure in having been called before this Commission and I hope that out of our brief may come something useful to you.

COMMISSIONER MACKINTOSH: Mr. Montgomery, we have had a number of people just preceding you who were particularly interested in the housing field. I take it from your brief that while you are not disinterested in that field your major interests are really outside the housing field. You mention in one of the early paragraphs -- I forget where --

a substantial volume of projects other than housing that are initiated by the builders rather than simply contracts. Would you tell me what sort of things these are so that I will have a better picture of this?

MR. MONTGOMERY: They would include such things as contractor-built industrial plants to be leased or sold to an owner by lease-back. They would also include office buildings and high-rise apartments built by, let us call it, an owner-builder to a very great extent. This tendency seems to be increasing in some of our cities such as Toronto and Montreal.

COMMISSIONER MACKINTOSH: How would this sort of activity be affected by changes in interest rates and in the availability of funds?

MR. MONTGOMERY: Dr. Mackintosh, if you do not mind I should like to pass the answering to some of these questions to my confreres. In this case I should like to ask Mr. Fuller if he would care to comment.

MR. FULLER: The economics with respect to an interest rate on apartment lease-back are such that if the interest rate went too high it would be damaging in putting deals across and selling them as an economic venture.

COMMISSIONER MACKINTOSH: You would have to charge the customer more than he would be willing to pay?

MR. FULLER: Yes. In the last ten years

it has risen from approximately $7\frac{1}{4}$ per cent of the overall costs to somewhere in the neighbourhood of 9 3/4 to 10 per cent today. Furthermore, it has to be gotten rid of in the fifth or sixth year or the owner finds himself putting his hand in his pocket to pay the income tax on the deal.

COMMISSIONER MACKINTOSH: I do not follow that, Mr. Fuller.

MR. FULLER: He would be taxed on what goes towards the payment of the mortgage; the owner would then be in a position where he would have to put good money into the venture after the fifth or sixth year in order to pay his income tax on the proportion of the mortgage money which was principal.

COMMISSIONER MacKEEN: What goes into the lease-back?

MR. FULLER: The entire cost of operation, other than the cost of the structure, plus the architect's fees and the administration costs of the building -- the entire running of the structure goes into the lease-back as a general rule.

COMMISSIONER MacKEEN: The taxes?

MR. FULLER: With the exception of the outside maintenance of the building everything is usually left in the hands of the owner-builder.

COMMISSIONER MacKEEN: What about the taxes?

MR. FULLER: These are usually paid by the person renting.

COMMISSIONER MACKINTOSH: You have made as

one of your major sets of recommendations the provision for greater investment incentives. The majority of them, I take it, are incentives to what you might call customers of the construction industry, but some of them are incentives to the construction industry itself. You lay particular emphasis, if I recall rightly, on greater incentives to the manufacturer whose new construction, say, has been less than you would like it to be in the last few years. Isn't the basic difficulty the fact that the capacity is already adequate if not excessive? How can you get an incentive to work?

MR. MONTGOMERY: That may well be true in certain areas but not in all areas. We feel that in some areas there is not too much capacity and they could stand more capacity; moreover, we feel that incentives are sometimes needed to induce manufacturers to modernize their plants, some of which are now becoming obsolete in comparison with, let us say, foreign manufacturers who are selling in this market. We feel in that case an incentive is probably required to induce them to modernize these plants. As far as incentives for our own industry are concerned you probably refer to the fact we urge a greater capital cost allowance on construction equipment purchases. There are several reasons for that. One is that we think that the rate was not adjusted in the same manner as it was for other industries at the time they changed from a straight

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Mr. MONTGOMERY: That may well be true in certain areas but not in all areas. We feel that in some areas there is not too much capacity and they could stand more capacity; moreover, we feel that incentives are sometimes needed to induce manufacturers to modernize their plants, some of which are now becoming obsolete in competition with, let us say, foreign manufacturers who are selling in this market. We feel in that case an incentive is probably needed to induce them to modernize those plants. As far as incentives for our own industry are concerned you probably refer to the fact we urge a greater overall cost allowance on construction equipment purchases. There are several reasons for that. One is that we think that the rate was not adjusted in the same manner as it was for other industries at the time they changed from a straight

line to a diminishing balance basis.

Where most other industries had their straight-line rate doubled, in the case of the construction industry it was increased by 50 per cent. Moreover, under the old system of straight-line depreciation, allowance was made for double-shift operations which took into account the fact you were using up machinery faster.

There is another factor today, of course, and that is that due to developments in the art of making new and better machines you get a factor of obsolescence in construction machinery, particularly in the heavy road-building category. It is our feeling that the rates should be adjusted upwards to about 50 per cent from the present 30 per cent.

COMMISSIONER MACKINTOSH: That is 50 per cent a year?

MR. MONTGOMERY: On a diminishing balance.

COMMISSIONER MACKINTOSH: You do not feel that the tax cuts ought to be on the consumer side to provide demand for the manufacturer's products, which might stimulate enough sales so that he would require more capacity?

MR. MONTGOMERY: We do not disagree with the idea, sir. In fact, in some of our recent presentations we have advocated a downward adjustment for personal income tax. We have, however, laid more emphasis recently on the incentives for manufacturers.

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COMMISSIONER MACKINTOSH: And this is based as you say, on your two assumptions: (a) there are some manufacturers who need more capacity, even though all of them do not, and (b) that a large proportion of them could with advantage undertake investment for modernization?

MR. MONTGOMERY: Yes.

COMMISSIONER MACKINTOSH: And for more rapid taking up of obsolescence.

MR. MONTGOMERY: Yes.

COMMISSIONER MACKINTOSH: You have a recommendation here of which I do not understand the background sufficiently. We are not a taxation commission, unfortunately, so our study is not extended to that field to any degree. You speak of extending the incentive principle to privately-financed wintertime construction projects. I take it there is some incentive principle in government-financed projects, is that right?

MR. MONTGOMERY: There is to this extent, sir, that the federal government, and in certain instances provincial government as well, assist financially municipalities to carry out works in wintertime rather than in summertime. Funds are made available providing the work is carried out within certain periods of the year. What we are thinking is to provide some incentive to private business to utilize the wintertime for construction to a larger extent than is done at the present time. One suggested way in which this might be done would be to

allow a higher rate of capital cost allowance or depreciation on those works carried out in the wintertime in place of the summertime. The idea of this, of course, is to level out employment throughout the year.

COMMISSIONER MACKINTOSH: Yes.

MR. MONTGOMERY: The federal wintertime construction programme has been eminently successful up until now. We feel it would be even more successful were it extended to the private field.

COMMISSIONER MACKINTOSH: I missed the exact nature of the incentive which you would offer.

MR. MONTGOMERY: One we thought of, sir, was to allow a higher rate of depreciation for works carried out in the winter time as opposed to the summer. Could I call on our general manager, Mr. Chutter, to enlarge on this?

COMMISSIONER MACKINTOSH: Certainly.

MR. CHUTTER: We believe an example which would be comparable, Dr. Mackintosh, is that under the municipal winter works incentive programme the municipalities get a substantial incentive to do municipal servicing during the winter months. To an increasing extent a good many municipalities are requiring builders to instal municipal services which ultimately become part of the municipal system. The scheme as applied to municipalities has had a very good response, and we have suggested that if the same incentive is offered to private developers who have to instal these municipal services there is every

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COMMISSIONER MACINTOSH: Certainly.

MR. DUBUC: We believe an example which would be comparable, Mr. MacIntosh, is that under the municipal winter works incentive programme the municipalities get a substantial incentive to do municipal servicing during the winter months. To an increasing extent a good many municipalities are requiring builders to install municipal services which ultimately become part of the municipal system. The scheme is applied to municipalities but had a very good response, and we have suggested that if the same incentive is offered to private developers we

reason to believe that they would respond to this incentive with the same enthusiasm as municipalities, and perhaps even more so. This is the same operation but the incentive is offered only if it is done by the municipality. If the developer has to do it himself there is no incentive.

COMMISSIONER MACKINTOSH: As I understand it the incentive to the municipality is the assumption of a large fraction of the cost by the federal government.

MR. CHUTTER: Yes.

COMMISSIONER MACKINTOSH: Is that in simple terms what you mean, that a similar fraction be allowed to a private developer? This is pretty handsome.

MR. CHUTTER: It depends how you look at it. The federal government has felt it is saving money in offering this incentive to municipalities because they have much less outlay for unemployment assistance, and so on. It is just that simple, sir. To express it in millions of dollars, it would not amount to a relatively excessive amount.

This scheme has been increasing in scope between the federal and municipal governments over the last four or five winters with good results.

In so far as the type of incentives which Mr. Montgomery was mentioning are concerned, once again we would stress that it is not a giveaway or subsidy

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by the federal government but in effect is a deferment of revenue. It is just that the capital cost allowances would be greater in the earlier years, but there would be no ultimate loss of revenue.

COMMISSIONER MACKINTOSH: I am inclined to think there is some possibility that the depreciation incentive is wearing a little thin. You defer tax on too many things and the payments finally come due. I think you find some companies are not claiming quite as much depreciation as they did in their first enthusiasm, for they find that ultimately this comes due. So, the further you extend this principal, to some degree, the less potent it becomes as far as the depreciation aspect is concerned.

MR. MONTGOMERY: But supposing they made it so that the privilege would be available to those private firms that wish to take advantage of it.

COMMISSIONER MACKINTOSH: As far as an incentive for privately financed winter-time projects is concerned, is not what you want an incentive that would make it equally advantageous to the initiator, whoever he may be, to do the work in the winter-time as in the summer? The incentive to municipalities, I think, has a second motive in that it tends to increase the volume of the work that is done, and not merely switch it from summer to winter.

MR. MONTGOMERY: I think that that is true, sir, but since about two-thirds of the total construction volume carried out in Canada is private work, and since there is still in this country a considerable difference between the volume of private work carried out in the winter-time and that carried during the balance of the year, it is our feeling that it should be of interest to government to do what it can to induce private industry to level out this hill and valley affair as much as they can. This is one way in which it might be done. Works are carried out in the winter, of course, without special incentives. They are carried out for a great variety of reasons, such as getting the finished project ready for rental sooner, and so on and so forth. It would not necessarily mean a very large capital cost allowance incentive just to swing the weight,

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in many cases, to a winter-time operation.

COMMISSIONER MACKINTOSH: I am not quarrelling at all with your intention. I was suggesting that perhaps the exact pattern for municipalities was a bit more than was required for this particular purpose. I notice also that you recommend the extension of N.H.A. provisions to mortgages on existing houses. We have already had some discussion on that today. This does not seem to be, in your business, a very important matter.

MR. MONTGOMERY: Of course, since housing is not our main business it is not of paramount importance in our eyes, but nevertheless we feel it is of considerable importance not only in enabling easier trading of older homes but, to some extent, we feel it would counteract the decay of certain older areas of cities. Again, I would like to ask Mr. Chutter about that.

MR. CHUTTER: I have not too much to add, sir, except to say that this matter has been very apparent to our membership; not only to builders, but also to manufacturers and suppliers of materials who see the scope of the programme south of the border.

We have made this recommendation, I think, for about eight or nine years to the federal government, that the extension of the N.H.A. provisions along these lines would be a desirable thing. We have modified our recommendation to the extent that this should be held in reserve until the time when either the supply of mortgage funds is sufficient to cope

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with additional demand, or when the market for new housing may be either levelling off or tapering off. Within the last year or so I think the feeling of our membership has been that the time is about now, or that it is just immediately around the corner.

I think the prevelant feeling is that this would be a desirable thing to have in the industry, and for those who want to buy homes. Our interest is not entirely selfish. Some people like to start off with an older home, but with the larger down-payment required, and the higher financing costs, etc., they have found it impossible.

COMMISSIONER MACKINTOSH: I am glad to hear you mention that, because so far I do not think anybody has been concerned with the poor fellow who is going to buy the house. It has seemed to me that one of the major problems in this field concerns the man who is transferred from one city to another and who has not the time in which to build a house and who, in many cities, cannot rent an adequate house. If he wishes to buy an existing house he is met by the requirement of a very large down-payment. This has held up the mobility of skilled and trained labour to quite a substantial extent. I have some other questions, Mr. Chairman, but I think I should defer them if my other colleagues have questions to ask.

COMMISSIONER LEMAN: I have just one question on the point you have touched upon, Dr. Mackintosh. How do you think this winter works programme

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[illegible]: I have just one question on the point you have touched upon, Dr. Mackintosh. How do you think this [illegible]

would work? We have to be practical about this. Would all winter works become work that would not have been done during the winter had it not been for the incentive, or ---

MR. MONTGOMERY: That is a rather tricky point. There are, of course, types of work that it is not practical to do in the winter. Certain types of highway work cannot be done in the winter. A lot of winter work would still be possible without incentives if we had a proper planning ahead so that foundations could be laid in the milder months and the buildings completed inside in the winter-time. That is understood. We do know that many companies defer the start of work until April or May, and that is work that they could very well have started in the more or less dead months of December, January and February if there was some real inducement for them to do so.

COMMISSIONER LEMAN: I am not quarrelling with the objective now. I am asking you if you visualize a system that would have a large complex of regulations, or whether you just say that winter work is work that would not have been done otherwise had it not been eligible for the incentive, in which case you can get into a lot of arbitrary decisions. I am just wondering how practical this is, really. That is my question.

MR. CHUTTER: It just happens, gentlemen, that I am the secretary of an organization known as the National Joint Committee on Winter-time

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Construction which has representation on it from the buyers of construction, the Canadian Manufacturers' Association, the Canadian Chamber of Commerce, and so forth, and also the design professions. It is the feeling of these representatives -- and after all, they represent the buyers of construction -- that whereas to an increasing extent there is a greater acceptance of the fact that winter-time construction is not , in most cases, either inferior in quality or excessive in cost, and actually is comparable, there is a built-in traditional prejudice against winter-time construction in the minds of many buyers of construction. The incentives which I think our own association, and this National Joint Committee on Winter-time Construction, have in mind are not large-scale hand-outs, or excessive or unreasonable ones. I think the feeling is that they are more inclined to appeal to the psychological interest of buyers, as was mentioned by our president. They are just one extra factor which could swing the decision.

Some companies, of which your own is one, disregard the calendar, but there are many companies that do not. Their own fiscal periods and their own habits have an effect on their decisions.

The type of incentives that has been suggested to the government is felt to be reasonable, and will have some effect on the costs of construction. It is one of those ironies that most of the construction materials are exempt from the federal sales tax, but

those that facilitate winter-time construction still have the sales tax applied to them, and that seems to be a little inconsistent. Dollar-wise it is not a large amount to the user of the materials, or to the government, but the removal of the tax on those materials would be a little extra incentive for the people to go out and get heaters and the wrappings that will facilitate winter-time construction.

In so far as the owner is concerned, one of the main suggestions was that if a project was commenced in the winter months there would be some slight adjustment on the capital cost allowance in the first winter. If it is a two-year or a three-year project then obviously there is going to be winter work anyway. There is no suggestion that everybody should benefit from such incentives just because they accidentally happen to qualify.

There are double depreciation schemes available to manufacturers. There are various types of such incentives that are in existence. It does not seem to those who are mooting this that it will provide any unusual administrative problems. Their feeling is that this will appeal to the financial people involved in companies, and that such extra incentives will be sufficient to influence those people when they are deterred from some slight increase in construction costs that may be encountered in going ahead in the winter-time.

COMMISSIONER MacKEEN: What about the very long-term project which is normally closed down

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COMMISSIONER [illegible]: What about the very long-term project which is normally closed down,

during the winter months and then recommenced in the spring-time. Would there not be a tendency to defer work which would normally be done in the summer months if there is to be some form of bonus for working through the winter months?

MR. CHUTTER: No, sir. I think the feeling of these groups is that the criterion should be the same as in the existing federal scheme, and that is that the incentive should be tied in with payrolls. This would indicate that the work had actually been carried on in the winter months.

COMMISSIONER MacKEEN: That is, work that would not have otherwise been done?

MR. CHUTTER: If it happens to be a capital cost allowance then it would be based on the winter payrolls on that job in the first winter of construction, so there would be no way of avoiding it. It is related directly to employment on the job site.

COMMISSIONER MacKEEN: In the summary of recommendations, Mr. Montgomery, on page 24 you say:

> "Administration of monetary and fiscal policies so as to avoid abrupt changes in the volume of construction."

I suppose you are referring there to some extent at least to tightness of money coming on all of a sudden on industry; that would be the major points that you have in view. Now, when this situation arises the monetary authorities have to deal with that. It does come on the monetary authorities very quickly and they have to be more or less abrupt, which necessarily disturbs the building industry, but has anybody or have you any recommendations to carry out as to how that might be avoided?

MR. MONTGOMERY: I would like to point out, sir, the importance of the construction industry so far as employment is concerned. We employ in the field about 600,000 men and probably another 300,000 to 350,000 in factories making prefabricated materials for construction, so that there is upwards of a million workers involved in the construction picture in Canada, and it is to a very great extent with this unemployment or employment picture in mind that we urge that the government consider this factor in the whole picture when they are thinking of an abrupt change in the administration of monetary and fiscal policies.

COMMISSIONER LEMAN: If they successfully applied credit controls to buyers of construction

services rather than to contractors it would have the same effect, wouldn't it?

MR. MONTGOMERY: Actually, we feel in times of tight money that the controls should be on the buyers of construction and not to the same extent on the contractors. We have seen instances where owners were able to get funds allotted to them for a project, only to find that the successful bidder on a job was unable to or only got funds to carry out the project with great difficulty, and it would seem to me that the brake, if any, should be on the purchaser in the first place.

COMMISSIONER LEMAN: Yes, but that wasn't my question, Mr. Montgomery. If they successfully applied the credit controls to buyers rather than to contractors, from the point of view of these abrupt changes the effect would be the same, wouldn't it?

MR. MONTGOMERY: Yes.

COMMISSIONER LEMAN: In the construction industry it doesn't matter if you prevent the buyer for the services from being able to pay for them or if you prevent the contractor from being able to do the work; the fluctuation on the construction industry is the same, isn't it?

MR. CHUTTER: I think that the policy text on this point says as much as possible, and I think it is the feeling that there are limits to which this desirable objective can be adhered to because, as was mentioned, crises seem to come up but, as our predecessors mentioned, sometimes there has been a very

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MR. [illegible]: I think that [illegible] work

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[illegible] in which

[illegible] to these.

[illegible] as [illegible]

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appreciable loosening of, say, credit in the housing field and all of a sudden there is funds and money coming out of their ears and there is a great expansion and that sometimes has growing pains. Then there is a change in policy and maybe half of that extra amount is cut off, and this makes it difficult for builders and manufacturers and everybody to gear themselves to these ups and downs of volume which are occasioned, in so far as that is concerned, by policy.

Now, as I say, the policy text says "as much as possible", and if there can be a healthy steady increase, that would be the desirable ideal. It cannot always be obtained, certainly, but if more consideration could be given to the effects of these policies on the industry, this would be appreciated.

COMMISSIONER MACKINTOSH: Are you referring specifically to large amounts of government money put into N.H.A. loans, say, in 1957 and succeeded by tight money; are you thinking of this experience?

MR. CHUTTER: This is one example. There are others in varying degrees in other fields in our industry. Take the highway programme for instance. A large programme may be called for and the industry gets geared to carry it out. They have a very large investment in road building equipment (it is very expensive) and then there will be a lull before anything happens for several years of a comparable nature.

We as an industry would prefer to see a sort

of continuous planning so that as one major programme comes to an end there is something there to take its place. The latter is necessary, but there is not always a continuation. To varying extents this occurs in different parts of the industry.

THE CHAIRMAN: We will adjourn now for 10 minutes.

--- Recess.

THE CHAIRMAN: We will now resume.

COMMISSIONER MacKEEN: You refer in here to the position of the buyer with relation to the contractor on a short-term contract rather than a long-term contract, and it would be difficult once the job is undertaken to restrict the buyer after he has made his financial arrangements; if the credit were suddenly cut off this would have a very bad effect indeed on the contractor, would it not?

MR. MONTGOMERY: That is right.

COMMISSIONER MacKEEN: Just what terms of control do you have in mind?

MR. MONTGOMERY: What we are trying to say I think there, sir, is that it is a wrong thing to allow the owner to have all the credit he needs for the construction of a facility and then to restrict the contractor in his credit when he gets the contract, when he has the contract to build it. That has happened in the past in times of tight money. In other words, if there are to be controls they should be applied at the owner's level rather than at the

[illegible] so that as the major program [illegible] to an end user is something there to take its [illegible] The matter is necessary, but there is not always a [illegible]. To varying extents this occurs in different parts of the industry.

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[illegible] to the problems of the buyer, with reference to the [illegible] contractor [illegible] rather than a long term [illegible], and it would be difficult [illegible] after he has made his financial arrangements. If the [illegible] would have a very bad effect indeed on the [illegible] would it not?

MR. MONTGOMERY: That is right.

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MR. MONTGOMERY: What we are trying to say I think there, sir, is that it is a wrong thing to allow the owner to have all the credit he needs for the construction of a facility and then to restrict the contractor in his credit when he gets the contract [illegible] in other words, [illegible] should [illegible] than at the

contractor's level. Once the permit has been issued or financing has been arranged for a project, that project should be allowed to proceed and not be held back because the credit of the contractor is curtailed, all things being equal.

COMMISSIONER MACKINTOSH: Except where the project is done by the contractor.

MR. MONTGOMERY: I said all things being equal.

COMMISSIONER LEMAN: Are you strictly talking about bank credit here?

MR. MONTGOMERY: Not entirely, no.

MR. CHUTTER: Just as an illustration, there have been times in the post-war period when there have been credit curbs or restrictions on the volume of commercial loans from the chartered banks. For example, as has been mentioned in the brief, the construction industry is particularly affected because it relies on the chartered banks for so much of its working capital requirements.

At that time the banks, for example, were asked to hold their loans at the same level as the previous year, or 90 per cent, or something of that nature. The owners might have alternative sources of financing -- the security markets or their own funds, or whatever -- and they have money to go ahead with the project, but the individual contractor initially, whenever we have these credit curbs, his bank manager is inclined to say, "Well, regardless of the amount of work you have on the books now or

which is coming up, under the present regulations I can only give you as much working capital as you had last year or X per cent of that" and it may be that an individual contractor had, say, $5 million worth in the previous year but he now has $10 million worth, and some of that is for defence projects and they are essential. In the two instances that this has happened since the war we have had to make representations to the Bank of Canada that contractors should be dealt with on an individual basis, and we have gone to the chartered banks and their head offices are inclined to say, "It is not our policy to hold an individual contractor to X per cent of what his line of credit was last year," but this has on both occasions been the story that most of the branch managers tell the contractors, and we have to go through the same thing again which has taken about six or eight weeks to get the word down from the top to the bottom, and I think this was the type of example which we had in mind. It is not the current situation but it may be in the future again.

COMMISSIONER MacKEEN: Do you bring this under your recommendation 6?

MR. CHUTTER: No sir.

COMMISSIONER BROWN: Do you request that the six to eight weeks be reduced to six to eight hours?

MR. CHUTTER: Fine, and that contractors, in so far as their credit is concerned, be dealt with on an individual basis depending on their own credit

standing and needs. In these emergencies in the past the contractor may not be more than two-thirds as busy as he was the previous year and if the same percentage applied to all contractors you will find a few persons with a line of credit more than they need and others with less than they require until this thing sort of sorts itself out. This takes time.

COMMISSIONER BROWN: But I gather it was sorted out in all cases?

MR. CHUTTER: Yes, generally speaking.

MR. MONTGOMERY: But there were a lot of tears and travail, sir. I can recall an instance where an owner has provided the funds to the contractor to carry out the work under a situation such as that.

COMMISSIONER LEMAN: You are talking about a situation where credit has to be rationed; this sort of phenomenon can only happen where it is being rationed. What would you think of another approach, making sure that the only rationing that would take place would be done through letting the interest rates flow back and forth to the point where they do influence decisions in order to avoid rationing?

MR. MONTGOMERY: As far as I personally am concerned, I am getting out into the wild blue yonder; I am not an economist and I would like to call on Mr. Fuller again for his comments on that.

MR. FULLER: I think that we are selling an article at a certain price to somebody that either can afford it or cannot afford it. For instance, if

we are building a shopping centre, Mr. Steinberg may say, "One-half of one per cent of sales goes for the building, period, not one cent more," and you have to get in under that wire. In my opinion I think there will be a lot of construction work that would never go ahead if interest rates climbed, unless the whole thing goes into inflation.

I think the banks in making loans should take more cognizance of the credit standing of the construction company to which they are loaning money, and while this is not the Association view, my personal view is that the situation of the construction industry today with the high rate of bankruptcies and nobody can get a job at a profit and the fact that there is a development of more and more firms getting into the business, can be laid at the front doors of the bankers and the bonding companies of this country.

Credit is extended to people without experience; you fire a carpenter foreman yesterday and two days later he is in competition with you, bidding on a quarter of a million dollar job against you, and he gets the job and the bank loans him $40,000 to carry out the job. This is my personal opinion, it is not the opinion of the Association but there are a great many in the Association who feel that way and there are others that think the contractors should be loaned a bit more money with easier terms and probably a higher rate of interest so that they can pay their accounts and not keep supply houses and the whole economy bogged down with accounts

receivable and nobody with any money to expand or to get cash profits or cash flow into their business.

COMMISSIONER GIBSON: You made some very interesting remarks, Mr. Fuller, about the effect of interest rates on these big projects. You said that they were very important, that the company allocates such and such a proportion of its sales to this and that therefore a change in the long-term interest rate was very important. What about changes in the case of short-term credit for construction companies, is this important?

MR. FULLER: Do you mean by that that the short-term credit would be a preferential rate or that you are going to just put more risk capital into the construction industry so that some fly-by-nights can get credit because you are willing to take a bit more interest rate for the risk involved?

COMMISSIONER GIBSON: I think that Mr. Leman asked you a question about how much effect did a change in bank interest rates have on construction companies, and I understand the points you made a few minutes ago, but this really is another question.

MR. FULLER: A construction company has to sell its services for its cost of operation plus a profit, and it just means that it is passed on to the purchaser, and the financing of a large general contract by a general contractor wouldn't probably be affected to any noticeable extent in the over-all price of the completed building, but when you multiply

[illegible]

to get cash [illegible] their business

[illegible] The made some very interesting remarks, Mr. [illegible], about the effect of [illegible] [illegible]. You [illegible] that they [illegible] the company [illegible] its [illegible] to this [illegible] in the long-term interest rate [illegible] very [illegible] and [illegible] in the case [illegible] construction [illegible].

MR. [illegible] the short-term credit would [illegible] or that you are going to [illegible] capital into the [illegible] some [illegible] rights [illegible] you are willing to take a bit more [illegible] involved?

[illegible]

Mr. [illegible] asked for a question about [illegible] effect did a [illegible] have on [illegible] and I [illegible] the points you made a [illegible], but there really is [illegible].

MR. [illegible]:

[illegible] to sell its [illegible] of operation plus a profit, and [illegible] the [illegible] purchaser, and [illegible] [illegible] effected [illegible] you multiply

the sub-contractor's financing together with the supplier's account receivable and his financing, together with all the rest of them right down the line, the trucker and the shipper and everybody, you compound the thing and then it becomes considerable.

COMMISSIONER GIBSON: Would you say that a rise in interest rates would have the same restraining effect?

MR. FULLER: I am not enough of an economist to know how to carry it down the line, but I would say that the most negligible part would be the general contractor's necessary financing, that would be the smallest item. That would be less, probably,than the compounding of the sub-contracting even to truckers having to get higher percentages, this would raise the cost more than the other.

COMMISSIONER GIBSON: I believe you went on to say that the suppliers had to be financed, and the sub-contractors, and so on; when you added that in it became important?

MR. FULLER: It becomes very important because it is all compounding on top of each other, and that is in the bid and that goes into the inflation.

COMMISSIONER GIBSON: Would you say that rising interest rates had some restraining effect on the industry in the sense that they cannot make as good a bid as they otherwise could, and a fall in interest rates would enable them to be more competitive?

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COMMISSIONER GIBSON: Would you say that a rise in interest rates would have the same restraining effect?

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MR. PHILLIPS: It becomes very important because it is all compounding on top of each other, and that is in the end what goes into the inflation.

COMMISSIONER GIBSON: Would you say that rising interest rates had some restraining effect on the industry in the sense that they cannot make as good a bid as they otherwise could, and a fall in interest rates would enable them to be more competitive?

MR. FULLER: Not more competitive with one another, but with the falling interest rates and the same competition it would allow the building to be tendered at a cheaper price.

COMMISSIONER GIBSON: These things would be just passed on, would they, whether it rises or falls?

MR. FULLER: The construction business or a sub-contractor's business, as I say, is a service business and on which you take your costs; you take your costs of operation and put a percentage on it for your profit, and that is your quotation.

COMMISSIONER BROWN: And these higher quotations would affect the marginal project whether it was proceeded with or not?

MR. FULLER: I think it all gets down to the fact that we just apply the bigger fighting force. I am not an economist and I am beyond my head here, but you asked me that question.

COMMISSIONER GIBSON: But the cost of the final article goes up and down pretty faithfully; whatever the effect that change in cost has on demand is what will determine the change in interest rates?

MR. MONTGOMERY: Not directly; there is a lag, of course. If the change in interest rates takes place during the progress of a lump sum job, that lump sum job is in effect because the price is already made, but it would necessarily be a cost of doing business and would be reflected in higher or lower costs, as the case may be, in subsequent work.

MR. FULLER: I would say that a change in interest rates would not generally effect the

construction price for a period of three years; that would be a rough estimate.

COMMISSIONER GIBSON: You mean in large projects?

MR. FULLER: No, I am speaking about almost a minor project.

COMMISSIONER GIBSON: Why would it be so long?

MR. FULLER: Well, it generally takes a a year to build a medium-sized project, or seven or eight months, and it takes considerable time to collect the prices before the contract is awarded. It may be a year or it may be six months, and if it is a tendered price, that is one thing, but if it is the economy of the owner-builder or the contractor-builder, where he starts figuring that it will cost so much and he has a year of planning before he starts to go ahead and a year to construct, there is no effect for two years.

COMMISSIONER GIBSON: If your thesis is right, the effect of monetary policy on the construction business probably acts in reverse because three years from now business is very likely to be moving in a different direction from what it is now.

MR. FULLER: I wouldn't say it was rapidly reflected at all because there are two categories; one is the straight contract for a given price and I would say that that would be affected by three months plus the life of the job and then the picture would change.

The other is the initiated programme which is carried out by the builder and which may be a year in planning, and then he gets so far with it and has so much money tied up in architectural fees and all the rest of it and he gets in a position where he says that he will go ahead anyway and he is not ---

MR. CHUTTER: I think one distinction is the effect of interest rates and other financing costs to the buyer in one parcel, and this also has an effect on the contractor's operation, and there is one point made by the question asked whether a job might not go ahead in the case of a marginal type of construction. This does happen quite frequently because his financing problems may sometimes be more acute than that of the contractor or it may frequently result in scaling down of the job. If there is an estimate of $500,000 and because of an increase in interest rates or any other increase in costs that job then comes in at $550,000 and the owner only has so much financing, then he has to delay the project until he gets more money, or he may decide to revise the specifications so that they can come within the budget.

MR. FULLER: There is another thing that governs quite a bit as to whether the project goes ahead or not, and that is in these lease-back propositions in your initial stages you have your depreciation and you have the interest paid on your mortgage and you have your mortgage principal; the first two are deductible for income tax purposes and the other is not.

[illegible]

is decided on by the builder and which may be a year in planning, and then he gets up [illegible] with it and has so much money tied up in architectural fees and all the rest of it and he gets in a position where he says that he will go ahead anyway and he is just ---

MR. [illegible]: I think the distortion is the effect of interest rates and other financing costs to the buyer of the project, and this also has an effect on the contractor's operation, and there is one point made by the question asked whether a job might not go ahead in the case of a particular type of construction. This does happen, quite frequently because his financing problems may sometimes be more acute than that of the contractor or it may frequently result in scaling down of the job. If there is an estimate of $500,000 and because of an increase in interest rates or any other increase in costs that job then comes in at $600,000 and the owner only has so much financing, then he has to delay the project until he gets more money, or he may decide on revising the specifications so that they can come within the budget.

MR. [illegible]: There is another thing that prevents quite a lot as to whether the project goes ahead or not, and that is in these [illegible] projects, where in your initial stages you have your negotiations and you have the interest paid on your mortgage and you have your mortgage commitment. [illegible] are [illegible] for [illegible] the project and [illegible].

Well, in the present structure of about 7 per cent and with tight competition this can go down and disappear on a 20-year mortgage; they disappear about the tenth year and then jump across to the fifteenth year and from there on there is no cash flow, everything is absorbed and everything from then on has to be directed to keeping the project alive. Somebody has to put in additional money at the end of that period and that will affect the economy and by raising this bank interest you quickly shorten the period again, and often it will shorten up to about seven years and that in turn means that if you are formulating a position of lease-back,you want to take care of the position that you are not going to have to find additional funds in seven years' time in order to own the building or that you have got to give it away or get rid of it, it is a loss from then on, but it is interesting if you look at/what one per cent more in the interest rate will do, how rapidly it advances it up to scale. At 5 per cent you get down to about the fifteenth year and at 7 per cent it moves it up almost to the fifth year.

COMMISSIONER MacKEEN: It was more a question of interest during construction and the method of getting away from the bank manager by cutting everybody down rapidly and whether it would be better from industry's viewpoint to pay a certain percentage more to be able to get the money and not to be able to get it except with a certain ---

MR. FULLER: My answer to that is that I

[illegible]

[illegible]

about ten years and then drop across to the fifteenth year and from there on there is no cash flow, everything is amortized and everything from then on has to be invested in keeping the project alive. Somebody has to put in additional money at the end of that period and that will be the economy, and by retaining this cash increment you quickly smooth the curve again and after it is all smoothed up in about seven years and that is the way that if you are formulating a provision of lease-back, what can take care of the problem that you are not going to have to find additional funds in seven years' time in order to own the building or that you have got to give it away or get rid of it. It is a loss from then on, but it is interesting that if you what add one per cent more to the interest rate each year, how rapidly it advances it up to 100 per cent. At 7 per cent you get down to about the fifteenth year and at 8 per cent it moves it up almost to the tenth year.

COMMISSIONER MacNEIL: It was more a question of interest, during construction, and the method of getting away from the bank manager in pushing everybody down rapidly and wanting it would be better from industry's viewpoint to pay a regular settlement here to be able to get the money and not to be able to get it except with a difficulty ---

MR. WILLIAMS: My answer to that is that I

think the Bank of Canada -- or whoever it is that puts pressure on the chartered banks -- should not put pressure in a manner that if a contractor has adequate security that he is bound to any limitations in order to carry out his business.

MR. MONTGOMERY: I think Mr. Chutter brought up the point, whether you noticed it or not, that it may frequently happen in times such as were mentioned of tight money that a contractor would not have very much work in hand and would have a large block of unused credit, and where his neighbour just by chance has secured more work than his reduced line of credit would allow for, and we advocate that some discretion be used in reviewing the field rather than making it a mandatory cut right across the board.

[illegible]

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it a mandatory cut right across the board.

COMMISSIONER MacKEEN: Mr. Montgomery, suppose two different contractors deal with two different banks. One might have more work to get finances for one than the other one and how is the branch bank manager going to determine between them?

MR. MONTGOMERY: I do not pretend to know how much information they exchange, sir. I suppose it is always open to the contractor with insufficient credit to go elsewhere, to another bank. I suppose that if he did go to another bank, then that bank would consult with his first bank. There must be some sort of consultation. Have you any reflections to offer on this Mr. Chutter?

MR. CHUTTER: When this has come up, in our experience, the local branch manager applies to his superiors and he may get the details.

COMMISSIONER MacKEEN: That causes the delay to which you refer?

MR. CHUTTER: That causes the delay, yes.

COMMISSIONER MACKINTOSH: You spoke a little while ago about rather violent shifts in credit conditions or government expenditures, which created difficulties in the industry, and you said there have been some of those as between residential and non-residential construction. Now, I take it it is obvious that much of the equipment in non-residential construction is not transferable. How about the labour? Do trades people move fairly freely between non-residential and residential construction?

COMMISSIONER MACKENZIE: Mr. Montgomery, suppose two different contractors deal with two different banks. One might have more work to get finances for one than the other one and how is the branch bank manager going to determine between them?

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MR. MONTGOMERY: I would not say they moved too freely, Dr. Mackintosh. It would seem to me that quite a different class of sub-contractors, for example, work on residential construction than on non-residential construction, and largely they would use a different type of labour. Common labour would go back and forth. Carpenters, and people like that, but many trades that are represented in the non-residential construction are not represented in the residential construction, such as welders, machine operators of one kind and another, et cetera. I think the lower down the scale in skill the more interchange there would be. I think your question is based on the unemployment picture.

COMMISSIONER MACKINTOSH: Yes.

MR. MONTGOMERY: Yes. I would say so far as that is concerned there would considerable interchange in the lower skills where the unemployment picture is the worst.

COMMISSIONER MACKINTOSH: Later in your brief you refer to the Industrial Development Bank and you say that a certain number of your members operate relatively small businesses. Have you any views to express on the adequacy of the financing of small business? We have had some representations on that. Is there any evidence to be derived from your industry?

MR. MONTGOMERY: I am going to ask our general manager to speak to that.

MR. CHUTTER: I wonder, sir, if you could

amplify the question. Is it a question of small businesses in the construction industry having more difficulty than medium and larger size firms?

COMMISSIONER MACKINTOSH: Yes. Are there any particular problems?

MR. CHUTTER: This can only be a general statement, but I think most people who are entering on construction in, say, a fairly modest way do so in the field of small jobs. These may be repairs or the building of houses, or small operations in the commercial and industrial field, and in consequence their financial requirements are relatively small.

If it is in building construction a lot of the work, in effect, is sub-contracted out so that their individual share of the financing is reduced,and not an awful lot of financing is involved. If they can keep a month ahead of their bills, that is sufficient. A lot of them get their initial bank credit through a guarantor who puts up a note for them, or they get trade credit. I would say there is a pretty prevalent feeling in the industry that in most years it is very easy to get into the construction industry and finance your operations, providing there is a demand for construction, and even where there is not, if there is a lot of credit available,then it does not seem to be too hard to obtain it.

If you are getting into engineering construction this is a different situation because then rather expensive equipment is involved so this should

mean that the contractor must have more financial resources, or know somebody who has, in order to establish himself in business, but once again in time of equipement surplus it can be very easy for them to get or lease this equipment. I do not think this has been a problem. In fact, in some years it may be just the opposite.

COMMISSIONER MACKINTOSH: I gather the I.D.B. has made a number of loans to construction companies.

MR. CHUTTER: Yes, but as borne out in our brief this has been a relatively insignificant thing so far. In the last couple of years the volume has increased twenty times. This is because of a policy decision that they have undertaken to make loans to contractors to a greater extent, and most of these have been for equipment. However, since they have been in that business I think the total volume of loans they made to contractors has been $13 million, and as of last September the chartered banks had loans out of $245 million and the finance companies as is shown by their annual volume of loans on construction equipment to the construction industry, lend about $200 million. Therefore the I.D.B. at $6 million, in its best year to date, has not made a very significant contribution.

COMMISSIONER MACKINTOSH: I have another small question. You mention in the course of your brief foreign investors as a source of large loans for construction. Is that a pretty substantial and significant source?

MR. MONTGOMERY: In certain areas of the

The contractor must have some [illegible] ess, or know somebody who has, in order to establish himself in business, but once again in terms of equipment supplies it can be very easy for them to get or lease this equipment. I do not think this has been a problem. In fact, in some ways it may be just the opposite.

CONGRESSMAN [illegible]: I gather the I.I. has made a number of loans to construction companies.

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CONGRESSMAN [illegible]: I have another small question. You mention in the course of [illegible] foreign investors [illegible] a source of large loans for contractors. Is that a pretty substantial [illegible] significant number?

MR. [illegible]: In [illegible] the [illegible] of the

country it seems to be. I am speaking now of Montreal. It has been quite significant in the Montreal area. I am not sure what the situation is up here.

MR. FULLER: Very high in Ottawa.

COMMISSIONER MACKINTOSH: This is the financing of special projects?

MR. FULLER: No, the financing of office buildings and apartment houses and special projects, but generally of the office building type.

MR. STEIN: I would substantiate that. There has been a great deal of foreign capital brought into Montreal for commercial building and high rise apartments.

MR. CHUTTER: There would also be some industrial parks such as in Toronto and the outskirts of Vancouver, which are large scale projects, largely financed from abroad.

MR. MONTGOMERY: And there is the town of Candiac, in Quebec, just outside Montreal.

COMMISSIONER BROWN: Could we ask you to illucidate a little more in detail your comments in paragraph 74 about mechanics' liens and trust provisions?

MR. MONTGOMERY: Mr. Saunders, would you care to speak to that one?

MR. SAUNDERS: I think Mr. Chutter should.

MR. CHUTTER: What aspect in particular are you interested in Mr. Brown?

COMMISSIONER BROWN: You say: "In several provinces 'trust provisions' have been incorporated in the lien legislation ...."

MR. CHUTTER: Yes, in the provinces of Ontario,

Manitoba andNNew Brunswick there are what are generally called trust provisions. They vary a little bit in detail but generally speaking they mean that hold back money -- as you know, as a construction project progresses the owner usually advances funds each month to help finance the construction activities, and if the progress estimate one month is $100,000 the owner is required to hold back a certain amount, usually 15 per cent. These hold-backs in the three provinces are designated as trust funds and this has been substantiated in the courts in recent years, that the creditors of, say, a bankrupt firm, if they are trade contractors from whom this money has in turn been held back, then this is considered to be trust funds in their right, and this has been of some concern to the chartered banks who feel they might have a prior claim on the assets of the bankrupt company or a preferential position in the scheme of things. There have been a variety of cases which established that the banks are more or less put on the same basis as other creditors.

This has led the Canadian Bankers Association and others to be actively interested in removing the trust provisions of this type of legislation. In Ontario there is currently being undertaken a very comprehensive review of the Mechanics Lien Act and the banks have taken the attitude that if they do not have what they consider to be their normal or understood status in such things, then they will have to be less generous in the extension of credit to

construction companies if there is to be this additional risk that has been established by the courts.

In the hearings that have taken place in Toronto this year this has been put forward forcefully, but others including our own Association have contended that the trust provisions are desirable and worthwhile provisions of these lien acts, and further we recommend that provinces which do not have these trust provisions should have them incorporated in their legislation. That is a very general statement and some of the other discussions in Toronto have related around the length which this trust provision lasts. Generally speaking, there is no expiry date and it has been suggested that a time limit be put into the legislation or regulations, after which the trust provisions have no longer any application. That is the general background of the trust provisions.

COMMISSIONER BROWN: When you say that they should last, I presume that they do not last past the period -- when the hold-back period is over.

MR. CHUTTER: No.

MR. FULLER: The impression has been created that it is the funds up to 15 per cent, but it is any payment made under a contract which is subject to the mechanics lien. If a progress payment is made by the owner to a general contractor and he deposits it in his bank the bank cannot use it to reduce his overdraft.

COMMISSIONER BROWN: Say that again.

MR. FULLER: If a progress payment is made by an owner to a general contractor, or by a general contractor to a sub-contractor, and he makes a large deposit in his bank, the bank cannot use that money to reduce his overdraft. It is regarded as trust funds until everybody contracted for payment under it has been paid.

COMMISSIONER BROWN: You go on and say the same principle should be applied to non-lieniable projects.

MR. CHUTTER: Certain projects are exempt from the provisions of lien legislation, notably those of governments at various levels. In other words, federal projects are not lieniable. In most cases provincial projects are not lieniable, and with regard to municipal projects about half of them are not lieniable. This was brought out in testimony at the hearings in Toronto. The supplier of a contractor for a federal project has no recourse if the contractor goes bankrupt, and the same applies in a municipal project. There have been abuses of this where companies were set up, say to lay streets in a development, which ultimately becomes municipal property, and were deliberately bankrupted because this was a cheap way to finance the project. The industry has recommended that even with crown projects the hold-back principle should apply and the lien principle.

COMMISSIONER BROWN: In putting this forward, you are putting it forward not only on behalf of your own people but on behalf of those of your members who

are sub-contractors?

MR. CHUTTER: They are a most important part of our membership.

MR. STEIN: And the suppliers.

COMMISSIONER BROWN: What you are asking is that the banks be a little more careful in the credit they give!

THE CHAIRMAN: The banks are put in a very awkward position.

MR. FULLER: I think there is a case now before the courts to prove that even though the lien does not exist the trust rights still exist.

MR. MONTGOMERY: I would ask Mr. Chutter to sight the Hardy case here in Ottawa.

MR. CHUTTER: This was a rather conspicuous example of a crown project on which the general contractor happened to go into bankruptcy. The contractor had been asked by the Department of public Works to put up an extra security over and above his usual security deposit because they thought him some risk. There was the security deposit plus another $100,000 security deposit, plus the hold-back. On a lieniable job all this money is retained for creditors after statutory requirements of wages and workmen's compensation etc. have been met. After that the money is available to the creditors, but on non-lieniable jobs, such as federal projects, this security deposit plus the extra security deposit and the hold-back were held primarily for the use of Her Majesty to complete the project. They had to get

another contractor to complete the job and it was only what was left after that was done that was distributed among the creditors, sub-contractors and suppliers, and there was not much. In this particular case it was not enough whereas if it were a lieniable job the sub-contractors and the suppliers would have received far more in the way of payments than they did.

There are other problems on crown jobs in that any equipment and materials on site in effect become crown property. It so happened in this case that a sub-contractor had brought in some very expensive equipment two days before the bankruptcy and this was transferred over to Her Majesty to use.

The use of payment bonds on federal projects has eased this problem in recent years, but sub-sub-contractors and suppliers to sub-contractors receive nothing under payment bonds. This is an aspect of trade credit and financing, especially to trade contractors and suppliers, which causes a problem and it is found more on public projects than on private jobs.

Similarly, when a trade contractor goes bankrupt it is the general contractor who has to pick up the difference because he has a firm price contract himself. It works both ways.

THE CHAIRMAN: Thank you very much, gentlemen. It has been a very useful discussion and we are much obliged to you.

We will adjourn now until tomorrow morning at 9.15 A.M. to hear the Central Mortgage and Housing Corporation and also, if time allows, we will be prepared to begin our hearing of Mr. David Mansur's brief.

--- Adjournment.

Royal Commission on Banking and Finance

DOMINION MORTGAGE & INVESTMENTS ASSOCIATION.
NATIONAL HOUSE BUILDERS ASSOCIATION.
CANADIAN CONSTRUCTION ASSOCIATION.

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SUBMISSION

TO

ROYAL COMMISSION

ON

BANKING AND FINANCE

MADE ON BEHALF OF ITS

MEMBER LOAN COMPANIES

BY

THE DOMINION MORTGAGE AND INVESTMENTS ASSOCIATION

TORONTO

JUNE, 1962

C O N T E N T S

Brief being submitted by The Dominion Mortgage and Investments Association on behalf of its member Loan Companies.

The Money Supply and Loan Companies

13. Loan companies do not escape the discipline of fluctuating interest rates.

14. Deposits with loan companies and the money supply.

15. Loan companies and cash reserves with the central bank.

16. Banks and cash reserves with the central bank.

17. Loan companies and cash reserves with banks.

18. Deposits with loan companies have no appreciable effect on the money supply.

Loan Companies in Canada

Special Items Reviewed

19. Borrowing powers of loan companies should be increased to 15 times paid in capital and reserve.

20. Deposit insurance not needed.

21. Member loan companies are opposed to the extension of the National Housing Act for the financing of existing houses.

22. Prepayment privilege given to individuals by the Interest Act necessitates a mortgage term no longer than 5 years.

23. Member loan companies have only a mild, theoretical interest in the development of a secondary mortgage market.

24. The present Income Tax allowable deduction for mortgage reserve of $\frac{1}{4}$ of 1 per cent per year to a maximum of 3 per cent should be increased

to $\frac{1}{2}$ of 1 per cent per year to a maximum of 6 per cent.

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28. Supervision of Loan Companies - Appendix 1

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81. Mortgage Interest - Competition.

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To The Honourable Chairman
and Members of the Royal Commission
on Banking and Finance

The Dominion Mortgage and Investments Association is grateful for the opportunity of presenting this Brief to the Royal Commission. The Association has for membership life insurance, trust and loan companies. Its life insurance company members are included in the membership of the Canadian Life Insurance Officers Association and its member trust companies are included in that of the Trust Companies Association of Canada. Each of these two Associations is submitting a Brief to the Royal Commission on behalf of its membership. The present Brief is being presented by this Association on behalf of only its member loan companies.

1. The Dominion Mortgage and Investments Association is a voluntary organization composed of 25 life insurance companies, 7 loan companies, 1 savings bank and 13 trust companies. It was organized in 1916 and since then has provided the focal point to discuss and deal with questions of common interest to these companies particularly in regard to matters related to their investments. While it does not include all such companies in Canada, its membership represents the major portion of the business in Canada. The Association operates by way of making recommendations to member companies, each company being free to accept or reject them. In the words of its Constitution the

objects of the Association are -

"(1) To assist its members in the fulfilment of the essential functions they perform in receiving, safeguarding and investing the savings of the public.

"(2) To maintain sound and equitable debtor and creditor relationships in connection with the loaning of the funds entrusted to such companies by the public.

"(3) To co-operate with other associations and with governments in matters affecting the investments of member companies.

"(4) To discuss subjects of business importance and of common interest which may arise from time to time and to make recommendations in connection therewith.

"(5) To gather and distribute information of general interest to its members.

"(6) To promote respect for contractual obligations and for the principles of thrift and saving and to assist in protecting investments of member companies against default or damage, and generally to assist in problems affecting investments.

"(7) To study and discuss matters of taxation affecting member companies, including the taxation of real estate, and to make recommendations in connection therewith.

"Provided always and it is hereby declared that this Association is not

formed for the purpose of affecting rates of interest nor to enable its members to establish combines of any kind nor to interfere in any way with free and untrammelled competition among its members either in lending money, purchasing securities, or in the terms and rates of interest in connection therewith, or otherwise."

2. By loan companies is meant those companies whose principal business is the lending of money on the security of real estate by way of mortgages including hypothecs and the investment in or purchase of such mortgages.

The Capital Market and Member Loan Companies

3. The participation of member loan companies in the capital market is primarily that of directing the funds of the saving public into first mortgages secured by real estate in Canada. While they do direct a portion of these funds into securities such as bonds, debentures and stocks, they do so only as incidental to their mortgage business for purposes of diversification, liquidity and because of the need of a haven for their funds pending disbursement into mortgage loans. Of their total assets at the end of 1960, mortgage loans accounted for 79.4 per cent. Except during and arising from the war years, mortgage holdings have not been less than 72 per cent. In 1928 this was 77.4 per cent.

4. The volume and tempo of the activities of member loan companies depend on the demand for mortgage loans and the supply of funds which the loan companies can attract. Both of these are affected by the fiscal, monetary and financial policies being pursued at any particular time by the Authorities. Under conditions of slackened demand, lenders seeking mortgage loans will endeavour to activate that demand by decreasing the rate of interest at which they are prepared to make mortgage loans. Because mortgage lending is a highly competitive business, loan companies if they want to make mortgage loans in volume, will have to be prepared to make loans at competitive rates for the types of mortgage loan they desire. Under conditions of excessive demand, the rate of interest which can be asked for mortgage loans will increase to the point where it will tend to discourage would-be borrowers. Likewise on the supply side, in order to attract funds in competition with other gatherers of savings, loan companies increase or decrease the rate of interest they are prepared to pay on their borrowings to a rate competitive with other avenues of comparable investment open to the public. There are limits beyond which member loan companies cannot afford to go in increasing their borrowing rate and in decreasing their lending rate as they must obtain sufficient margin to enable them to operate profitably. Because member loan companies are both borrowers and lenders, their operations may be said to be doubly sensitive to the policies being pursued by the Authorities. While this

is so, the responsiveness of member loan companies to such policies tends to be delayed because of the medium and long term nature of the mortgage business and because of the customary time-lag between approval of mortgage loans and the full disbursement of them by the loan company. Under conditions where funds available to them are in short supply relative to the demand on them for mortgage loans, member loan companies are unable to fill that demand. To the extent that they have funds or can expect to obtain them, member loan companies will make those mortgage loans which they consider to be best for their purpose.

5. In their every day operations, member loan companies keep abreast of developments and trends in the financial markets in order that they may gauge as far as may be possible the likely course of events in their own business of making mortgage loans. They are able to do this because of their contacts with bankers, investment dealers, economists and students of affairs whose opinions may be helpful, as well as with builders, promoters, land developers and real estate men generally. Their directors are men who are successful in their own line of business and who have the opportunity of keeping in touch with business and financial conditions. Further, there are available many financial and trade publications as well as investment services from which management endeavours to form educated opinions on trends and likely developments. Senior officers are men of experience and mature judgment. Apart from matters connected with

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5. In their every day operations, member loan companies keep abreast of developments and trends in the mortgage business in order that they may gauge as best they may as possible the likely course of events in their own business of making mortgage loans. They are able to do this because of their contacts with bankers, investment advisors, economists and students of all these subjects who may be helpful, as well as with builders, contractors, land developers and real estate men generally. Their directors are men who are successful in their own line of business and who have the opportunity of keeping in touch with business and financial conditions. Further, there are available many financial and trade publications as well as investment services from which intelligent and reasonably well-informed opinions on trends and likely develop-

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the sale of savings bonds, there have been no recent contacts with the Bank of Canada on the part of member loan companies as a group. Discussions with successive Ministers of Finance have been limited to matters having to do with amendments to legislation pertaining to the corporate powers of loan companies and matters related to the application to them of taxation statutes.

6. The Bank of Canada is charged with highly responsible duties in the exercise of which it is called upon to form judgments and take action thereon and in respect of which there will no doubt always be considerable lack of unanimity in financial and business circles, if not in federal, provincial and municipal government circles. Frequent and complete statements by the Bank could be useful to business and finance in certain circumstances and at certain times and could assist in obtaining greater public co-operation in achieving the fulfilment of those policies. Under other circumstances and at other times, such statements could be embarrassing in the sense that they could impede such fulfilment. Member loan companies believe that it would be unwise to give the Bank or its Governor specific directions. Rather, they believe, that the matter should be left to the judgment of the Governor with the observation that there are times and circumstances when frequent and complete information could be helpful and should be issued by the Bank.

7. Member loan companies have as directors men of standing in the business and financial community. They come from many walks of life. Among them are

investment dealers, insurance company executives, bankers, lawyers, industrialists and merchants. One company is a subsidiary of a trust company and each of three has a trust company subsidiary. One company is controlled in England and one in France. In the case of one loan company, the friendly relations which have existed for a great many years with one particular bank continue and that bank has a 16 per cent interest in the shares of that company, this company meanwhile being a substantial customer of a number of banks. The shares of member loan companies are widely held and among shareholders are banks, insurance companies, pension funds, sundry institutions and individuals. Member loan companies invest in stocks, including those of banks, on their investment merit as do banks in the stocks of member loan companies. In no case do the holdings of shares by a member loan company or a bank constitute control or near control of the other as such holdings are small in relation to the total number of shares outstanding.

8. Member loan companies have no relationship with dealers in securities other than that of client. Other than the mutual reference of would-be mortgage borrowers to each other, there is no contact between member loan companies and the Industrial Development Bank.

9. Member loan companies are not large investors in securities and their participation is for the most part in government securities. In their experience, the securities markets in Canada have worked well.

10. The Canadian capital market is discussed at

length in the Study "The Role of The Trust and Loan Companies in the Canadian Economy" prepared by The University of Western Ontario School of Business Administration for The Trust Companies Association of Canada, which Association is appending it to the Brief it is submitting to your Commission. Four loan companies, members of this Association, joined with The Trust Companies Association in having the Study prepared. As participants in the capital market, member loan companies operate within a framework of legislative regulations. Most of these regulations are of long standing and seem to have had their origin in the desire of legislators to protect depositors and debenture holders. Among these are the limit of borrowing powers, the limitation of the amount of mortgage loans to the value of property as security, the limitations as to the permitted kinds of investments and loans which may be made and the quantitative and qualitative restrictions applicable to certain types of investments and loans. Desirable as these may be for the protection of depositors and debenture holders, their effect is to confine loan company operations to certain areas of the capital market and, within those areas, to limit their participation. Member loan companies exist for the purpose of making mortgage loans and, generally, they desire to continue to operate to the end that the greater portion of their assets will be mortgage loans. Except for the 12½ times unimpaired paid in capital and reserve limitation on their borrowing powers, member loan companies do not regard other

Study The Role of [illegible]

[illegible]ts in the Canadian Economy prepared by the [illegible]y of Western Ontario School of Business Ad- ministration for the Trust Companies Association of Canada, which Association is forwarding it to the Royal [illegible] It is submitting to the Commission. Few loan companies, members of this Association, joined with the Trust Companies Association in having the Study prepared. As contributions to the capital market, member loan companies operate within a framework of legislative regulations. Most of these regulations are of long standing and seem to have had their origin in the desire of legislators to protect depositors and de- benture holders. Among these are the limit of borrow- ing powers, the limitation of the amount of mortgage loans to the value of property as security, the limi- tations as to the permitted range of investments and assets which may be acquired, the quantitative and qual- itative restrictions applicable to certain types of in- vestments and loans. Desirable as these may be in the protection of depositors and debenture holders, [illegible] [illegible] from [illegible] obtain [illegible] to [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible]

restrictions as being onerous under present conditions. The addition of more restrictions on member loan companies, however, would make their operations more difficult and might well curtail them. The imposition of such controls, for example, as regulations calling for ratios of specified assets to total assets or as to minimum and maximum terms of amortization would introduce additional impediments to the elasticity of member loan company participation in the capital market.

11. The participation of governments and their agencies in the mortgage sector of the capital market at artificial interest rates and on terms more favourable as to size of loans, length of amortization and prepayment privileges than member loan companies can grant has had the effect of shrinking the field in which member loan companies can operate and has curtailed in the mortgage sector of the capital market the discipline of interest rates set by the operation of a free market of supply and demand. Not only does this apply to the field of residential mortgages but also to other fields of lending where, for social and other reasons, government agencies lend or private agencies lend under government guarantee at artificial rates of interest, or where legislation specifies a maximum rate.

12. The proposal that insured mortgage loans be made available for the financing of the existing house would add another element of rigidity in the mortgage sector of the capital market. Additional consideration is given to this proposal commencing with Paragraph 70.

The Money Supply and Loan Companies

13. The Study prepared by the University of Western Ontario School of Business Administration previously referred to deals at length with the acceptance of deposits by loan and trust companies and the relation of that activity to the control of the money supply by the central bank in the implementation of monetary policy through the rise and fall of interest rates. Elsewhere in this submission, it is demonstrated that member loan companies do not escape the discipline of fluctuating interest rates. They are very much susceptible to it, once as borrowers and once as lenders. It follows that it should not be necessary to require member loan companies to maintain a cash reserve with the central bank inasmuch as such companies are already subject to the impact of monetary policy in the same way as any other borrower or lender.

14. Member loan companies are-depositors with the banks in the same way as any other depositor. Whether the deposit arises from the loan company's earnings or the repayment to it of mortgage loans or the sale or maturity of investments on the one hand or, on the other hand, whether it arises from borrowing by way of debentures or borrowing by way of acceptance of deposits does not alter the situation that the money is in the banking system as a deposit liability and that, in respect of it, the particular bank concerned is required to maintain a cash reserve (8 per cent at the present time) with the central bank. Likewise, the impact on

13. The study prepared by the University of Western Ontario School of Business Administration previously mentioned [illegible] deals at length with the growth of deposits in loan and trust companies and the relation of this activity to the control of the money supply by the central bank in the implementation of monetary policy through the rise and fall of interest rates. [illegible] in that submission, it is demonstrated that [illegible] loan companies do not escape the discipline of fluctuating interest rates. They are very much susceptible to it, once as borrowers and once as lenders. It follows that it would not be necessary to require [illegible] loan companies to maintain a cash reserve with the central bank inasmuch as such companies are already subject to the impact of monetary policy in the same way as any other borrower or lender.

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the particular bank concerned and on the banking system of the withdrawal from deposit by a member loan company of its own money is no different than the impact of withdrawal for the purpose of giving back the money to its depositor or honouring a cheque drawn on it by the depositor -- either way the particular bank loses the deposit and recovers the cash reserve it held in the central bank. Under the present definition, deposits with loan companies and other intermediaries are not included in the definition of "money supply" and member loan companies consider that, as pointed out above, such inclusion is unnecessary for the implementation of monetary policy as determined by the central bank.

15. It seems to member loan companies that to require them to maintain a reserve with the central bank in respect of a deposit a loan company accepts and also to require the bank into which the loan company deposits the deposit it accepted would be a type of duplication not necessary to the control of the money supply. Because all money must eventually flow into the banking system, that system is a closed circuit in which loan companies and other intermediaries do not participate. To require loan companies and other intermediaries to become subject to the limitation of the maintenance of a cash reserve with the central bank imposed on the occupants of this closed circuit would, in effect, grant to the banks an advantage to which member loan companies believe the banks are not entitled. It is submitted that, if loan companies and other intermediaries are to be required to maintain a

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15. It seems to member loan companies that to require them to maintain a reserve with the Central Bank in respect of a deposit a loan company accepts and also to require the bank into which the loan company deposits the deposit it accepted would be a type of duplication not necessary to the control of the money supply, because all money must eventually flow into the banking system, the system [illegible] closely control[illegible] which is not contested [illegible] intermediaries do not participate. [illegible] loan companies and other intermediaries to be [illegible] to the limitation of the requirement [illegible] reserve [illegible] Central Bank [illegible] on the [illegible] of their [illegible] deposits would in [illegible] [illegible] [illegible] [illegible] [illegible]

cash reserve with the central bank, they should be given the attributes of a bank in all respects.

16. The central bank controls the money supply by the action it takes to regulate the cash reserves of the banks. At the present time the minimum reserve required is 8 per cent of Canadian deposit liabilities of the chartered banks. Thus, a $100 cash reserve can sustain $1,250 of deposit liabilities represented by the reserve and $1,150 of loans and investments. Any action by the central bank resulting in an increase in Canadian deposit liabilities puts the banking system in a position to use 92 per cent of the amount of such deposits. Because all money must flow into the banking system, the banks are the beneficiaries of the central bank's action. Even where the seller of bonds to the central bank happens to be a depositor with a loan company, the proceeds of the sale flow into the banking system. While cash reserves are non-interest bearing, they cannot be considered to be in the nature of a burden or penalty on the banks because, through no action of their own, the banks have been placed in funds to make loans or investments to the extent of 11½ times such reserves. In a sense it can be said that the banks are the fortuitous recipients of a source of loanable and investable funds. Inasmuch as the long term trend of money supply is upward, member loan companies do not agree that the fact that the 8 per cent is non-revenue producing in the hands of the banks is inequitable to the banks. Rather they feel that the banks are in the fortunate position of having guaranteed

operations of a bank in all respects.

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to them the use of 92 per cent of this steadily increasing money supply.

17. Member loan companies take the same position as above with respect to being required to maintain cash reserves with banks. These companies maintain large balances with the banks as part of their operational needs. Normally these balances are non-interest earning. To add to these balances an added amount locked-in with the banks at no interest would be tantamount to making a gift to the banks of the interest earned on such additional balances.

18. There seems to be some difference of opinion among economists and students of central banking techniques as to the merits and desirability, or otherwise, of attempting to control money supply through the addition of reserve requirements applicable to intermediary deposit-receiving institutions. Whatever may be the correct theoretical position in this matter, member loan companies are of the view that their deposit-receiving activities can make only very little difference.

Loan Companies in Canada

Special Items Reviewed

19. The limited borrowing powers of member loan companies at times hamper their activities. This limit is now 12½ times unimpaired paid in capital and reserve. They believe that it should be raised to 15 times.

20. Member loan companies see no need for deposit insurance.

21. Member loan companies are opposed to the extension of the National Housing Act for the financing of existing houses. They have not participated in the operation of the Act because of the low rate of interest, the long term and attractive prepayment privileges and the additional paper work. Such extension would curtail their field of operation still further.

22. Most mortgage loans by member loan companies are made for a term of 5 years. This is because of the prepayment provisions granted to individuals by the Interest Act. Under these provisions the mortgagor is free to prepay after 5 years while the lender is locked in for the term of the contract.

23. For the present, member loan companies have only a mild, theoretical interest in the development of a secondary mortgage market.

24. The setting up of reserves for losses on mortgages is presently allowed under the Income Tax Act at $\frac{1}{4}$ of 1 per cent per year to a maximum of 3 per cent. Since 1955 when this amendment was made to the Act, there has been a large increase in mortgage portfolios and a reserve of this amount is considered to be too small in the light of the experience in the period 1929 to 1948. Member loan companies believe that it should be made 6 per cent with an annual deduction of $\frac{1}{2}$ of 1 per cent per year.

Historical

25. Loan companies originated as building and

loan societies about 1845. Borrowers were required to become members and as a condition of the loan were required to subscribe for stock in the society. Two types were issued, terminating and permanent. Upon repayment of a loan, the terminating stock was retired but the permanent stock remained. Over the years, this method of obtaining loanable funds and capital gradually changed. Some societies began to take deposits and this was authorized by legislation about 1865. Societies began to borrow by way of debentures and gradually what are now known as loan companies were evolved. Gradually through amalgamations, liquidations and acquisition of trust company powers, the number of them has dwindled until only relatively few are operating. In 1900 there were 83 loan companies operating in Ontario, in 1910 the number was 54 and in 1927 it was 27. By the end of 1954 only 7 remained in operation in Ontario. Loan companies registered in and supervised by Ontario under the Loan and Trust Corporations Act and those supervised by the Federal Superintendent of Insurance numbered only 10 at the end of 1954. In the last few years, some new companies have been incorporated and the 1954 number of 10 had increased to 13 at the end of 1960. These loan companies are listed in Appendix 1 and those who are members of this Association are so identified.

26. At this late date, it is not possible to ascertain what conditions at the time led to mergers of particular companies or their ceasing to do business or the terms of mergers and acquisitions. However, Appendix 2 lists the names of loan companies which

[illegible] Borrowers were required to become members and as a condition of the loan were required to subscribe for stock in the society. Two types were issued, terminating and permanent. [illegible] of a loan, the terminating stock was cancelled but the permanent stock remained. Over the years, this method of financing loans and capital gradually changed. Some societies began to take deposits and this was authorized by legislation about 1865. Societies began to borrow by way of debentures and gradually what are now known as loan companies were evolved. Gradually through amalgamations, liquidations and cancellation of their company powers, the number of them has dwindled until only relatively few are operating. In [illegible] there were 8[illegible] loan companies operating in Ontario. In 1910 the number was [illegible] and in 1927 it was [illegible]. At the end of 1954 only 7 remained in operation in Ontario. Loan companies registered in and supervised by Ontario under the Loan and Trust Corporations Act and loan companies [illegible] by the Federal Superintendent of Insurance numbered only 10 at the end of 1954. In the last few years some new companies have been incorporated and the 1954 number of 10 had increased to [illegible] at the end of [illegible]. These loan companies are listed in Appendix I and those who are members of this Association are so marked.

16. At this late date, it is not possible to [illegible] reason with certainty as [illegible] led to [illegible] of [illegible] companies [illegible] their [illegible] to [illegible] the terms of [illegible]. Appendix C lists the names of loan companies which

have ceased to function since 1921. While this list is not complete, it is believed that it is representative.

Supervision

27. There are companies engaged in the mortgage loan business which are not supervised by the Federal Superintendent of Insurance or registered and supervised under the Loan and Trust Corporations Act of Ontario. Such companies are incorporated by the Provinces under the provisions of legislation applicable to loan companies generally, by special Act pertaining to particular companies, by charter or letters patent incorporating what amounts to private companies or under the provisions of legislation applicable to companies generally or under legislation governing investment contract companies. These companies may or may not be subject to limitations as to type of borrowing, nature of and restrictions on permissible investments and other conditions of operation. The number of such companies, the extent of their business and the restrictions, if any, under which they operate are unknown to us. We are not aware of any officially published information on the operations of loan companies other than the report of the Federal Superintendent of Insurance and that of the Registrar of Loan and Trust Corporations for Ontario. Appendix 3 summarizes the legislation governing the incorporation of loan companies.

28. The companies listed in Appendix 1 are subject to the supervision and inspection of the Federal

ceased to function since 1921. While this list is complete, it is believed that it is representative.

Supervision

77. There are companies engaged in the mortgage loan business which are not supervised by the Federal Superintendent of Insurance or registered and supervised under the Loan and Trust Corporations Act of Ontario. Such companies are incorporated by the Provinces under the provisions of legislation applicable to loan companies generally, by special Act pertaining to particular companies, by charter or letters patent incorporating what amounts to private companies or under the provisions of legislation applicable to companies generally or under legislation governing investment contract companies. These companies may or may not be subject to limitations as to type of borrowing, nature of and restrictions on permissible investments and other conditions of operation. The number of such companies, the extent of their business and the restrictions, if any, under which they operate are unknown to us. We are not aware of any officially published information on the operations of loan companies other than the reports of the Federal Superintendent of Insurance and that of the Registrar of Loan and Trust Corporations for Ontario. Appendix I

[illegible]

of loan companies.

42. The companies listed in Appendix I are subject to the supervision and inspection of the Federal

Superintendent of Insurance or of the Registrar of Loan and Trust Corporations for Ontario. This supervision and inspection are intensive ones for the purpose of ascertaining that their affairs are conducted in accordance with the Loan Companies Act, Canada, the Loan and Trust Corporations Act, Ontario or the Loan Companies Act, Nova Scotia and that their solvencies are maintained for the protection of the public whose funds have been entrusted to them. The province of Nova Scotia accepts the supervision of the Federal Superintendent of Insurance as adequate protection to it and does not require any supervision by it. The province of Ontario supervises and reserves the right to inspect all companies doing business in the province. In practice, Ontario accepts the inspection of the Federal Superintendent of Insurance and that of the province of incorporation where such province carries out inspections. Such provinces as British Columbia, Saskatchewan, Manitoba and Quebec reserve the right to inspect the affairs of loan companies operating within their limits and they have this right. The extent to which loan companies are inspected varies. The closest inspection comes from the province of incorporation or from Ottawa in the case of Federal incorporations, and, in addition, from the province of Ontario in the case of companies doing business there. To all provinces in which a company does business and to Ottawa, in the case of Federal incorporations, an annual return is required to be made. For Ottawa and the province of Ontario, the returns are detailed and voluminous.

29. Member loan companies assemble the savings of the public and direct their use to the capital market. To do this, they borrow money from the public by accepting deposits and by selling their debentures. In so doing, they are governed by the provisions of legislation of general or specific application. The funds they assemble are loaned and invested as authorized by this legislation. The bulk of these funds is placed in mortgages secured by improved real estate because the purpose in life of loan companies is to make or purchase real estate mortgages.

As Gatherers of Savings

30. In their efforts to attract savings dollars to themselves, member loan companies face the competition of other institutions and organizations which seek to do the same thing. Included are the chartered banks, the trust companies, the credit unions, the investment contract companies, the mutual funds, the bond market and sundry financial companies. Member loan companies gather savings by borrowing from the public. These borrowings take the form of the acceptance of money on deposit and the issuance of debentures. Member loan companies enjoy the confidence of the public as deposits with them and debentures sold by them have a long record of safety coupled with attractive interest rates and terms. While member loan companies have been successful in attracting a substantial volume of savings, they have not attracted a large proportion of the total of available saving. Competition is keen

[illegible] the public and restrict their use to the capital markets. By doing this, they have brought money from the public by accepting deposits and by selling their debentures. In so doing, they are governed by considerations of maximization of [illegible] on [illegible] capital. The [illegible] ized by this legislation. The bulk of their funds is placed in mortgages secured by improved real estate because the purpose [illegible] life of loan contracts is more or less [illegible] long-term [illegible].

As Customers of Banks

30. In their efforts to attract savings and time [illegible] to themselves, mortgage loan companies face the competition of other financial institutions and [illegible] which seek to do the same thing. [illegible] the chartered [illegible] investment, national [illegible] and [illegible] bond market and equity financing [illegible]. Loan companies gather savings [illegible] from the public. These are [illegible] the flow of the [illegible] of money [illegible] and the [illegible] of [illegible]. [illegible] have [illegible] the [illegible] of the [illegible] [illegible] [illegible] [illegible] interest rates and terms. [illegible] loan [illegible] have been successful in [illegible] a [illegible] volume of [illegible] [illegible] total of available [illegible]. [illegible]

and there is no element of capital profit to attract the public, as there is in the case of some of their competitors. At the end of 1960, the debenture liability of those loan companies listed in Appendix 1 was $377 million and their deposit liability was $137 million for an aggregate of $514 million. The following tabulation sets out the amounts of liabilities for debentures and deposits at intervals for some years back:-

($Million)	Debentures	Deposits	Total
1960	377	137	514
1959	334	127	461
1958	270	141	411
1957	246	122	368
1956	220	119	339
1951	138	88	226
1946	101	65	166
1941	101	36	137
1939	105	36	141
1934	117	32	149
1931	121	43	164

Apart from the equity of the shareholders, the ability of loan companies to make investments, whether by way of mortgage or otherwise depends upon their ability to attract funds from the public. Appendix 4 summarizes the balance sheet in aggregate of those loan companies who are registered to do business in Ontario. While this is a smaller sample than the companies listed in Appendix 1, in that it omits those companies supervised

by the Federal superintendent and who do not do business in Ontario, all the important companies in point of assets and liabilities are registered in Ontario and are reflected in the balance sheet set out in Appendix 4 which can be said to be truly representative of the business.

31. At times some loan companies have been hampered by the statutory limit on their borrowing powers. Since 1958, Federal loan companies have been limited in the amount of their borrowings (less cash on hand and on deposit with chartered banks) to $12\frac{1}{2}$ times unimpaired paid up capital and reserve. For the period 1948 to 1958 this was 10 times and from 1927 to 1948 it was 6 times. Prior to that time it was 4 times. Ontario loan companies and those registered to do business there are limited to 4 times but the Lieutenant Governor in Council, on such terms and conditions as he may prescribe, may increase the amount of borrowing of an applicant loan company to an amount not exceeding $12\frac{1}{2}$ times. It follows that the Ontario limit may vary as between individual loan companies. In recent years the Ontario maximum limit has been in line with that applicable to Federal loan companies. Our member loan companies recognize that a statutory limit on borrowing has validity for the protection of depositors and debenture holders. With increasing population and increased volume and accelerated tempo of economic activity, however, they consider that the present limit is too low, preventing them at times from serving the Canadian public in their mortgage

of the [illegible]

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loan requirements to a greater extent. With the supervision and inspection to which they are subject and with the various limitations, prohibitions and qualifications surrounding their loans and investments, member loan companies believe that a limit of 15 times would be in order and that such a limit would not do violence to the protection of the public.

Debenture Liability

32. Loan company debentures may be sold "over the counter" by the loan company. Such debentures are not issued at any one time but are issued to clients from day to day through the company's offices or to fill orders received directly or from investment dealers or agents for their clients. The term is usually anywhere from 1 to 5 years and has been as high as 10 years. There is no statutory requirement as to term except that companies registered in Ontario may not issue debentures for a shorter term than 1 year. Such debentures range upwards in denomination from $100, this being the minimum denomination permitted to Ontario registered loan companies, and may be issued in multiples of $100 or in odd amounts above $100 to suit the requirements of the purchaser. Registration may be had for both principal and interest or for principal only or they may be issued to bearer. Debentures sold "over the counter" are non-callable and there is no obligation on the loan company to repurchase them prior to maturity, although some companies will repurchase them on compassionate grounds. In some cases, a

company may follow a policy of redeeming the debentures held by a deceased holder. Usually there is a limited after-market for debentures through one or two investment dealers to whom the company can refer holders who wish to sell before maturity. Some loan companies are prepared to issue these debentures in cumulative form, that is, with the interest payable by coupon or cheque at maturity only. The rate of interest varies with the length of term and with the general level of interest rates for comparable securities. Historically the rate has been more than the yield on government bonds of comparable term by about one-half of one percent. At the present time, the range varies between 4 per cent for 1 year debentures to 5 per cent for 5 year debentures. It is customary for debentures sold "over the counter" to be sold at par. The outstanding characteristic of such debentures is flexibility. Within the broad limits of a loan company's policy relative to length of term and rate of interest, the requirements of the investor can be met readily.

33. All loan companies do not follow the practice described in paragraph 32. Some follow the practice of selling issues of debentures to underwriters who retail the same to the public. Of necessity, the aggregate amount of an issue, the interest rate, term, callability, denominations, registration provisions, price at issue, etc. must be determined in advance of the underwriting and described in the indenture and prospectus covering the issue. Usually, part of such an issue takes the form of maturities longer than 1 to 5 years, possibly

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as long as 20 years and may be made callable at times and on terms set out in the indenture.

34. Both types of debentures described in paragraphs 32 and 33 are general obligations of the loan company. There is no specific pledge of assets in practice. While this is so, there would seem to be no statutory prohibition against the specific pledge of assets. In fact the legislation applicable to loan companies registered in Ontario contemplates that this can be done. Parliament has recently given incorporation to a loan company with power to pledge assets as specific security for the types of debentures the company proposes to issue.

35. At least one loan company has borrowed by the sale of short term notes at times, depending upon conditions in the money market and the use to which the funds so obtained are proposed to be put. While such notes are not debentures in the recognized sense, there is little practical difference and so they can be considered as debentures in the broad sense.

36. Debentures and other securities of loan companies are well recognized as safe investments by the public and in most provinces are investments permitted to trust funds where the loan company is "approved" by the authorities. Not only are such debentures well recognized by individuals but are invested in from time to time by corporations and institutions where safety plus an attractive return is required or desired.

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Deposit Liability

37. All but three loan companies registered to do business in Ontario at the end of 1960 borrow by the acceptance of money on deposit. Generally speaking, this is done in two ways at the present time.

38. Ordinary deposits have the following characteristics in varying degrees depending upon the particular loan company. They are evidenced by a pass-book in which are recorded the deposits, withdrawals and balances. They bear interest at the rate or rates established by the loan company from time to time. This interest may be calculated on the minimum quarterly or half-yearly balance as agreed upon. The rate may vary over a term of years but once established usually remains the same for a considerable period. At the present time the rate generally in effect ranges from 3 per cent to 3½ per cent depending on the company and the privileges or restrictions pertaining to the deposit. Full chequing privileges are granted subject to the statutory provision that the company may require thirty days' notice of withdrawal. In practice, however, this statutory provision is not operative. Some companies make no charge for cheques, others allow one free cheque per month for every $100 of balance on deposit and charge 10 cents per cheque for others. Still other companies may allow a "reasonable" number of cheques free of charge. Some companies limit the amount of deposit balance to say $25,000 or $50,000 and some may place no limit, while other companies may have a minimum deposit amount which they will accept.

39. Special savings accounts, called so for want of a better name, may also be evidenced by a pass-book. Such deposits have no chequing privilege. Withdrawals must be made in person and usually require the presentation of the pass-book. The company can require thirty days' notice of withdrawal. Interest is allowed on the minimum monthly balance at a rate somewhat higher than on ordinary deposits, the present rate being 4 per cent and the maximum balance permitted tends to be lower. Deposits may also be accepted in large amounts subject to negotiation as to terms and conditions. Because there is keen competition for the savings of the public not only among savings institutions but among the loan companies themselves, any number of combinations of terms and conditions may be adopted in the acceptance of money on deposit by a loan company in order to attract to itself the volume of money which it desires to obtain.

Liquidity Provision

40. Loan companies with Federal charter and those registered in Ontario are required to maintain cash, deposits with chartered banks, federal and provincial securities, those of certain types of municipalities and demand loans secured by the types of securities named to an amount equal to 20 per cent of deposit liabilities. Some of the other provinces have similar but not identical requirements, British Columbia requiring 25 per cent. In practice these percentages are minima as loan companies maintain substantially

higher percentages. For the ten year period ending with 1960 the average amount of cash and securities held at year end was 49.2 per cent of the average deposit liability at year end.

	Per Cent
Cash on Hand and in Banks	8.0
Federal and Provincial Securities	38.0
Canadian City and Ontario Municipal Securities	2.9
Demand Loans	.3
	49.2

The amount of deposit liability and of cash and other liquid assets at the end of each year 1951 to 1960 are set out in Appendix 5. Loan companies operating in Ontario are required to report to the Registrar of Loan and Trust Corporations for that province every six months on their liquidity provision. The excess of liquidity provision over the statutory requirement maintained by an individual loan company results from the combination of a number of factors. First, the experience gained over a long period of time on the flow of deposits, in and out. of the particular company. Second, the net inflow of the proceeds of debenture sales, being term money. Third, the inflow of mortgage principal repayments. Fourth, the excess of revenues over expenditures. Fifth, the expected pay-out on mortgage loans. In this connection, mortgage loans approved are not paid out at once in the

majority of cases, considerable time-lags between the date of approval and full pay-out of the amount of the loan being customary. This time-lag arises from a variety of causes. Among these are completion loans requiring pay-out only upon completed construction; pay-outs as construction progresses; forward commitments for pay-out at future date or dates; and delays in the completion of legal requirements related to the mortgages to be taken as security. Thus, a loan company requires to accumulate the funds necessary to enable it to honour its commitments as they arise and these accumulations are invested in readily cashable securities to earn income. There are also periods when the demand for mortgage loans of the types the company prefers is lacking or sluggish or insufficient to take up the funds the company has available, and these funds are similarly invested for income pending outlet into mortgage loans. In the light of these factors as they apply to its own operations, a loan company will maintain in cash and bank balances and in securities readily cashable such over-all amount as best suits its own needs and particular circumstances.

41. By way of liquidity additional to that already described, loan companies generally have stand-by arrangements with a bank or banks whereunder bank credit can be available to them on terms mutually satisfactory.

42. Further, Parliament has provided institutional mortgage lenders with a means of obtaining additional liquidity. By its Act of incorporation, Central

Mortgage and Housing Corporation is authorized, in the case of loan companies, to buy their debentures, to purchase mortgages owned by such companies and to lend on the security of such mortgages. Other than providing for an agreement calling for the exchange of data relating to mortgage lending between the Corporation and the lender, the legislation is silent on such matters as terms and conditions of loans from the Corporation or prices and other terms of purchase of debentures and mortgages. This legislation makes possible additional mortgage funds and enables the Corporation to act as "banker of last resort" to loan companies requiring funds to improve their liquid position. The legislation is permissive and whether or not the Corporation is prepared to exercise these powers lies with the Corporation. In discussions which took place between officers of the Corporation and representatives of the Association in 1949, the companies suggested the possibility of the Corporation entering into an "as, if and when" agreement for stand-by loans of "last resort". It was the view of the Corporation that it could not commit itself in advance to exercise these powers generally or in any given sets of circumstances nor could it anticipate possible terms and conditions under which it would act.

Deposits are "small" saving

43. Deposits with loan companies are for the most part by far chequing accounts as it was only in 1959 that non-chequing deposit accounts began to be

[illegible] and Housing Corporation is authorized, in the [illegible] of loan companies, to buy their debentures, to purchase mortgages owned by such companies and to lend on the security of such mortgages. Other than providing for an agreement calling for the exchange of data relating to mortgage lending between the Corporation and the lender, the legislation is silent on such matters as terms and conditions of loans from the Corporation or prices and other terms of purchase of [illegible] possible additional mortgage funds and enabling the Corporation to act as "banker of last resort" to loan companies requiring funds to improve their liquid position. The legislation is permissive and whether or not the Corporation is prepared to exercise these powers lies with the Corporation. In discussions which took place between officers of the Corporation and representatives of the Association in 1965, the companies suggested the possibility of the Corporation entering into an "as, if and when" agreement for standby loans of "last resort". It was the view of the Corporation that it could not commit itself in advance to exercise these powers generally or in any given set of circumstances nor could it anticipate possible terms and conditions under which it would act.

Deposits and "small" saving

13. Deposits with loan companies are for the most part by [illegible] only in 1965 that non-chequing deposit accounts began to be

accepted. Taking as a sample six loan companies registered in Ontario with $128 million of deposit liability, only $8 million were of the non-chequing variety at the end of 1960. While precise information is not available, it is estimated that individuals account for about 98 per cent of the number of deposit accounts and for about 85 per cent of the dollar amount of such deposits, as at October 31, 1961.

Deposit Insurance

44. There is no system of deposit insurance in Canada. Member loan companies believe that there is no need for such insurance. Depositors with loan companies have been well served by them and the provisions of legislation under which member loan companies operate have proven to be adequate for the protection of depositors. Because loan companies enjoy the confidence of the public (and have merited that confidence), the establishment of a system of deposit insurance would not cause the public to increase the number or amount of their deposits with loan companies, particularly if such insurance were available to other types of savings-taking institutions. Under such circumstance, there can be no particular benefit accruing to loan companies from deposit insurance and its cost and attendant regulations and restrictions can only add to the cost of doing business which must ultimately be reflected in a lower rate of return to the depositor or a higher interest charge to the mortgage borrower, or both. If, notwithstanding their view that deposit

insurance is not needed, a system of such insurance were to be established, it would become necessary for the loan companies to participate in the system in order to keep the deposits now in their hands and to attract new deposits in the face of competition from other savings-taking institutions participating in the system.

Clearings and Payment System

45. Each loan company accepting chequable deposits makes arrangements with a bank in each clearing area or district to act as its "clearing bank" for that area or district and maintains an account with the "clearing branch" of the bank for the area or district. The cheque forms supplied to its depositors by the loan company identify both the clearing bank and its clearing branch. The cheques are cleared by the Clearing House in the ordinary way to the clearing bank at its clearing branch. The loan company calls at the clearing branch of its clearing bank and takes possession of the cheques drawn on it by its depositors and which cheques have been charged against the account of the loan company by the clearing bank. Where a loan company has a number of branches within a clearing area or district, it is its responsibility to sort and convey the cheques to its branch against which the cheque was drawn. Clearing is a service supplied by the chartered banks which the loan companies receive and for which they pay. The charges for this service have increased substantially in recent years. For example, in Toronto,

the charge established in November 1950 was \$100 plus $1\frac{1}{2}$ cents per cheque plus \$600 annually as non-member clearing house fee. In September, 1954, these became \$100 plus $2\frac{1}{2}$ cents per cheque plus \$300 annually. In November 1958 this was changed to the present charges, namely \$100 plus 5 cents per cheque plus \$300 annually, this \$300 being applicable to Montreal also while for Vancouver it is \$150 and for other clearing centres \$100. Payment is made to the clearing bank which remits the \$300 or its equivalent to the Clearing House.

As Investors and Lenders

46. In paragraph 27, supported by Appendix 3, attention was directed to the lack of uniformity in the incorporation of loan companies and in the investment and loan powers granted by incorporating jurisdictions. Attention was also directed to the absence of published official information. Although there are important companies in the mortgage loan field incorporated otherwise, those incorporated by Parliament together with those incorporated by Ontario and those incorporated by Quebec and registered to do business in Ontario do the bulk of the mortgage loan business done by loan companies in Canada. While there are some differences in corporate capacity to invest and lend and in other respects, the investment and loan powers of Federal loan companies and of Ontario registered loan companies can be said to be truly representative of the industry. Accordingly, these have been summarized in Appendix 6.

47. Member loan companies generally do not consider

[illegible] 1929 was $10[illegible]

[illegible] rate was [illegible] 200 words plus [illegible]

[illegible] hour [illegible] In [illegible]

the rate 2½ cents per word plus $20 monthly.

December 1931 this was changed [illegible]

[illegible] plus 5 cents [illegible] plus $200 monthly.

[illegible] double [illegible] while the

[illegible]

$200. [illegible] is made [illegible] which met

the $200 on the [illegible] Clearing House

[illegible]

[illegible]

their investment and loan powers to be unduly restrictive as there is ample scope, within those restrictions and limitations, for them to place the funds at their disposal under existing conditions. As in the past and as conditions change, pertinent representations to the supervisory authorities will no doubt, in the future, bring about satisfactory changes as their need becomes apparent.

48. Appendices 4 and 4a set out the balance sheet of the loan companies registered in Ontario as at the end of 1960 and each of the nine previous years and some earlier years, both in amount and percentages. It is to be noted that all the loan companies incorporated by Parliament are registered in Ontario so that the data presented include those of Federal companies. The annual reports of the Registrar of Loan and Trust Corporations for Ontario are the source of the information set out in these appendices.

49. It has already been noted that loan companies are primarily mortgage lenders and investors in mortgages. Such assets as cash and bank balances, holdings of federal and provincial securities, those of certain types of municipalities and demand or collateral loans have already been considered under the liquidity provision aspect, in paragraph 40 and Appendix 5. At the end of 1960, such assets represented 10.8 per cent of total assets while at the end of 1959 it was 12 per cent. Apart from the war years when government bond holdings were relatively high and the early period following the war when mortgage loan demand was just

becoming active, changes in this group of assets have no particular significance in the light of the comments made in paragraph 40. Except in exceptional circumstances, loan companies do not change the direction of the flow of their funds from mortgages into securities. Investment in the latter is either for the purpose of reserve or as a temporary avenue of investment pending the funds being placed in satisfactory mortgages.

50. Investment is sometimes made in short term securities (1 year or less) for the temporary employment of funds. The statistics do not disclose that this was the case prior to 1959.

51. For the purpose of reserve and in line with what has been said in paragraph 49, loan companies invest in corporation and other bonds to obtain better yield and as a matter of diversification. Related to total assets, such investment is small.

52. Attention is directed to the fact that of the investment in common stocks shown in Appendices 4 and 4a, a large part represents the investment of loan companies in their own subsidiaries. Of the $26 million shown as at the end of 1960, $13 million was stock of or loans to subsidiaries. Thus, stock holdings as an investment was only some 2 per cent of total assets. Three loan companies have a trust company subsidiary while one other loan company has investment subsidiaries in accordance with its corporate powers.

53. It will be appreciated that loan companies are not an important factor in the securities market as their holdings of securities are very small in

relation to the total of such securities outstanding. The bulk of the securities purchased by loan companies are mostly short term, that is to say the investment made has only a short term to run before maturity, of the order of 5 years or less. This is not to say that the companies do not buy longer term securities as there are circumstances, such as a specially attractive rate of return or satisfactory convertible features, where the purchase of a medium or longer term security will be in order.

54. Investment in head office and branch office premises accounts for only 1.8 per cent of total assets. As a rule such real estate contains considerable space for rent and the companies receive a substantial net income after all charges from their investment. While some of the smaller and newer branches may occupy rented properties, the companies generally own the buildings they occupy. Where the loan company has a trust company subsidiary, the latter occupies the same building. Loan companies, members of this Association, including head offices, operate 64 offices; 6 in British Columbia, 9 in Alberta, 5 in Saskatchewan, 3 in Manitoba, 31 in Ontario, 4 in Quebec, 1 in New Brunswick, 4 in Nova Scotia and 1 in Newfoundland. One such loan company, a subsidiary of a trust company, is operated by its parent and so has no office premises. Each loan company endeavours to locate its offices in strategic locations conveniently situated to the public in order to attract depositors and to facilitate mortgage payments as well as to attract mortgage borrowers. These offices

are located in or close to the financial district of the city or town. In a few metropolitan areas, one or two loan companies may have one or two branch offices located in areas removed from the financial district. For the most part, loan company offices are located in larger and fair-sized cities. Member loan companies have 1,438 employees of which 758 are males. However, 899 of these, of which 469 are males, are employed jointly by a loan company and its subsidiary trust company.

55. Real estate for sale is a very small item now-a-days. It is made up of sundry properties no longer required for office premise purposes and property acquired as the result of foreclosed mortgage loans. The latter is unusual now because of conditions of relatively prosperous times. In this connection, Federal and Ontario companies are under statutory obligation to dispose of foreclosed property within 12 years of acquisition.

Mortgage Loans

56. It has already been pointed out that loan companies exist for the purpose of making mortgage loans. It follows that the main asset of such companies will be mortgage loans. At the end of 1960, loan companies held mortgages of a book value of $471 million which was 79.4 per cent of their total assets. It will be noted from Appendices 4 and 4a that, apart from the war years, mortgages held have increased in amount from year to year and have represented a high

proportion of total assets, the average for the ten years ended with 1960 being 77.1 per cent and that for the last five years being 78.7 per cent.

57. These mortgage loans are secured by first mortgage on improved real estate in Canada. Almost all, about 98.5 per cent, are secured by urban property as opposed to farm property. Included are single dwellings, duplexes, apartments, hotels, motels, filling stations, warehouses, office buildings, manufacturing, processing and assembly plants, shopping centres, commercial blocks, stores, assembly halls, churches, recreational facilities, etc. etc. While there are no statistics to support this, it is estimated that upwards of 70 per cent <u>in dollar value</u> of the mortgages held by member loan companies are secured by residential properties, single and multiple.

58. While loan companies do a substantial mortgage business, they having approved gross mortgage loans of $167 million in 1960, their participation related to the total is a small one. Appendix 8 relates approvals granted by loan companies to the total of such approvals and to such approvals less those granted with government funds through Central Mortgage and Housing Corporation.

Percentage - Approvals by Loan Companies

	To All Approvals	To "Private" Approvals
1960	13.9	16.2
1959	8.1	10.8
1958	8.4	11.2
1955	7.5	7.6
1952	10.0	10.9
1949	10.6	11.7
Average	9.0	10.4

Mortgage loans outstanding held by loan companies, while increasing in amount, from $179 million at the end of 1928 to $471 million at the end of 1960 or 163 per cent, have not kept pace with the over-all increase in mortgage debt. In the result, the loan-companies' share has become much smaller. In 1926, loan companies held 29.9 per cent of the estimated total mortgage debt held by institutional lenders. In 1951, this was 14.2 per cent and at the end of 1960, 8.8 per cent, as set out in Appendix 8. If mortgage debt held by government and its agencies be taken into account, the loan companies' share is still smaller. On this basis the loan companies' share was 27.4 per cent in 1926. By 1951, it had dropped to 10.2 per cent and at the end of 1960 to 6.5 per cent. The following tabulation illustrates what has happened.

Percentage Share of Mortgage Loans Outstanding

	1926	1947	1954	1960
Private Sector				
Life Companies	49.3	62.9	70.6	60.5
Loan Companies	29.9	19.4	11.8	8.8
Trust Companies	12.1	10.3	7.7	8.2
Other Corporate Lenders	8.7	7.4	6.7	5.4
Chartered Banks	--	--	3.2	17.2
	100.0	100.0	100.0	100.0

	1926	1947	1954	1960
Private and Government				
Life Companies	39.2	46.9	51.8	44.9
Loan Companies	27.4	14.5	8.7	6.5
Trust Companies	10.2	7.7	5.7	6.1
Other Corporate Lenders	2.7	5.4	4.9	4.0
Chartered Banks	--	--	2.3	12.8
	79.5	74.5	73.4	74.3
Government	20.5	25.5	26.6	25.7
	100.0	100.0	100.0	100.0

59. Member loan companies grant mortgage loans on new and existing residential properties and on new and existing properties other than residential. These loans are of the conventional type as differentiated from National Housing Act loans. As will be discussed later,

the loan companies, members of the Association, may be said not to operate under this Act -- in 1961 only one company so operated but it made only five loans. The pattern of member loan company lending has been as follows:

Gross Mortgage Loan Approvals

Percentage to Total Approvals Loan Companies

Year	1960	1959	1957	1956	1953	1951	1949	1948	1947
New Residential	31	27	38	26	34	19	23	18	18
Existing Residential	32	37	39	41	43	54	43	45	49
Total	63	64	77	67	77	73	66	63	67
New Other Urban	24	21	7	17	9	6	13	12	9
Existing Other Urban	13	14	14	13	11	14	15	20	18
Total	37	35	21	30	20	20	28	32	27
Farm	-	1	2	3	3	7	6	5	6
All types	100	100	100	100	100	100	100	100	100
New	55	48	45	43	43	25	36	30	27
Existing	45	61	53	54	54	68	58	65	67
Farm	-	1	2	3	3	7	6	5	6
	100	100	100	100	100	100	100	100	100

("Other" is everything that is not residential or farm)

For the years under review, a three-fold trend appears to have been established (a) a switch from existing properties to new properties (b) switch from residential properties to "other" properties and (c) a swing away from farm loans. A study of the above tabulation indicates that this trend is not an absolute [illegible] varies considerably with the period t[illegible] ation, for example comparing 1960 with [illegible]

with 1957. This is because, in the last analysis, it is the type of demand for loans that governs the pattern of loan company lending. The indicated trend, however, is not surprising when it is remembered that the period under review was one of heavy residential construction and of heavy non-residential construction with its new concepts of shopping centres, plazas, motels, etc. and with the volume of new office buildings, warehouses and industrial and commercial plants in the decentralization and spreading out away from down-town of metropolitan areas to areas further out and to the smaller centres.

60. While up to that time member loan companies were substantial farm mortgage lenders, the establishment of the Canadian Farm Loan Board in 1929 with the existence of provincial government bodies in the farm loan field created such an added competition by lending at a rate of interest uneconomic to the institutional lender that the latter found it difficult to find farm borrowers of the quality desired in sufficient volume to warrant sustained farm lending. With the poor or absent crops of the thirties and the legislation unfriendly to lenders enacted by the Prairie provinces, particularly Alberta and Saskatchewan, it became imprudent to make farm loans on a broad scale. With the subsequent enactment of the Farm Loans Improvement Act whereunder the chartered banks were authorized to make farm loans with a pool guarantee by the Federal government, little demand on loan companies and other institutional lenders has existed for some time. Thus, loan

companies make few farm loans as they are unable to meet the competition of the lower rate of interest charged by the Farm Credit Corporation (successor to the Canadian Farm Loan Board) with government funds and by the banks under the pool guarantee of the Federal government.

61. As previously indicated member loan companies make virtually no National Housing Act loans. There are three reasons for this. The first is that the rate of interest available under the Act does not provide sufficient margin to a loan company related to the cost of its funds. The second is that the long term loans contemplated by the Act are incompatible with the short term borrowings of the loan companies. In this connection, the more advantageous prepayment privileges under the Act are a real deterrent to longer term borrowing by loan companies. The third is that the greater amount of paper work involved in making loans under the Act adds to the costs of administration.

62. Up until July 1961 when it was changed to two-thirds, loan companies incorporated by Parliament were authorized to make or purchase mortgage loans of a maximum amount of sixty per cent of value. Those incorporated by Ontario were not subject to any provision related to value but in practice they limited themselves pretty much to sixty per cent. By legislation enacted in April 1962, they became limited to two-thirds of value. The legislation governing Federal and Ontario loan companies, for all practical purposes, limits the activities of loan companies to first mortgages. In most cases, mortgage loans by loan companies

and the mortgages taken as security run for a term of five years but usually call for monthly, quarterly, half-yearly or annual payments on a longer schedule of amortization, the balance owing at the end of the five years being renewed on terms negotiated at the time of renewal. This practice of five year mortgage loans is made necessary by the provisions of the Interest Act and similar legislation in some provinces whereunder an individual is given the right, in the case of a real estate mortgage expressed as being payable for a term longer than five years, to prepay the mortgage after five years upon payment of three months' interest. These provisions have important implications for the lender. Where he makes say a ten year loan he commits himself for the full ten years whereas the borrower who is an individual can exercise his right of prepayment after the fifth year. This means to the lender that the relationship of the return on his investment to the cost of the money loaned can be destroyed by the borrower during the term for which it was made. Thus, in periods of dropping interest rates, the lender is deprived of his higher return while he remains liable for the full cost of the money he loaned. In periods of rising interest rates, the borrower does not exercise his right of prepayment and the lender has no opportunity to obtain the higher rate as he is bound by the original term of the mortgage contract. The right of prepayment referred to does not extend to corporate borrowers and consequently loans are made to them for a term longer than five years where such longer

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term can be supported by the nature of the loan.

63. The amount of a mortgage loan depends primarily on the concept of lending value. For each property offered as security for a mortgage loan, the lender determines its lending value by appraising the property or having it appraised by professional appraisers. Lending value is the amount which a prudent lender estimates could likely be recovered in case of default through the sale of the property in times of less favourable economic conditions. Involved in the determination of lending value are such factors as location, age and quality of materials and construction, state of maintenance, repair and general physical condition, proximity to possible nuisances, suitability in relation to value and type of properties in the area surrounding the property offered as security, attractiveness of the property planning and size of rooms, etc. It follows, of course, that the factors involved will vary depending upon whether it is an existing property or one to be built or whether the property is a single dwelling, an apartment, an office building, a warehouse, a processing plant or a filling station, etc. etc. To this lending value is applied the percentage allowed by legislation. Because lending value is a matter of educated opinion, there are variations in the amount of loan which various lenders are prepared to make on the same property. Thus the amount of loan is an important factor in competition. Other factors include the length of term, the conditions and times of payment of principal and interest and the conditions pertaining to the pay-out

and ready availability of the mortgage moneys. The other important competitive factor is the rate of interest. Mortgage lending is open to all. It is engaged in by insurance companies, trust companies, investment companies, endowment and church funds, pension funds, estates and trust funds, etc. and the individual as well as by government and its agencies. There is great competition for mortgage loans not only among classes of lenders but also among lenders of the same class. Loan companies compete for the mortgage business offered with other classes of lenders and with each other. Each loan company endeavours to obtain mortgage loans through its own staff and contacts with real estate dealers, financial agencies, the legal profession and builders. In localities where they have no office, a local representative acts in the procurement of mortgage loans. Each loan company prides itself on the quality and speed of its service to would-be borrowers and does its best to maintain the flow of mortgage loans to it.

64. Loan companies and other mortgage lenders are concerned with the credit-worthiness of would-be borrowers as well as with the physical property they offer as security. They endeavour to ascertain all there is to be known about the borrower -- the nature of his employment and his employment history, his income and prospects, his and his family's living habits, the extent of his savings and the source of the equity he proposes to place in the property to be mortgaged. In short the company endeavours to ascertain as far as possible whether the prospective borrower is likely to

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be a good mortgage borrower. Each loan company has its own ground rules in evaluating credit-worthiness and in determining whether or not the loan application is acceptable for the full amount requested or for a lesser amount or whether it should be rejected or granted at higher interest to compensate for whatever additional risk may be present. Among these ground rules may be a maximum amount beyond which the loan company will not lend on any one property irrespective of its lending value and this may apply in every area or only in some areas. A loan company may not care to lend on a property beyond a certain age and that age may differ as between loan companies. Again a loan company may dislike progress loans and prefer completion loans. Because of their smaller size, some loan companies make only residential loans or loans on other than residential property only in modest amounts. Some companies may require that the carrying charges on the mortgage may not exceed a certain proportion of the borrower's income as a condition of granting the loan. In order to minimize the risk of loss, loan companies seek to diversify their mortgage loans and to maintain a balanced portfolio as to size of loan, type of property and location. It follows that these ground rules will vary from time to time and for different localities and vary as between loan companies. Within these ground rules determined at head office level and approved by the Directors, loan applications are obtained and processed by the branch offices. If the branch manager is prepared to recommend that the loan be made

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as submitted or as modified, it is submitted for approval or ratification to head office, with the ultimate responsibility resting on the Board of Directors or a committee of its members empowered by resolution of the Board. Where applications involve large amounts such as apartments, commercial and industrial plants, etc., the application may be made directly to head office and there processed in consultation with the manager of the branch where the property is situated or where it is to be built.

65. In addition to making mortgage loans, loan companies are authorized to purchase them, if they qualify under the legislation. While some purchases are made, these are insignificant when related to mortgage loans made by them. On occasion, loan companies sell mortgages but these also are insignificant and usually for special reasons. Loan companies are not "traders" in mortgages. They build-up a portfolio of mortgages for the purpose of investment.

Secondary Mortgage Market

66. For the present member loan companies have only a mild, theoretical interest in the development of the secondary mortgage market currently under discussion. Loan companies are well equipped to make mortgage loans and they have had a long and successful underwriting experience in so doing. Why they should buy mortgages instead of making mortgage loans in accordance with their own standards of underwriting is not clear. Similarly, having placed on their books mortgages made in accordance with those standards, why they should

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sell them is also not clear. There could, of course, arise situations where sales of mortgages might become necessary, such as to obtain liquidity or to withdraw from certain areas or to facilitate collection but these are special circumstances not contemplated in a secondary mortgage market in the ordinary sense. Mortgages in the hands of loan companies are practically all conventional mortgages and as such are not readily adaptable to sale or purchase in a secondary market. As already indicated, National Housing Act mortgage loans have not been attractive to member loan companies for the reasons given in paragraph 61 and it is difficult to visualize a situation where such mortgages would be offered at such discount as would make their yield attractive for purchase by member loan companies. In these circumstances, it does not appear likely that member loan companies will be active and substantial participants in a secondary mortgage market.

67. As to holders of mortgages other than loan companies, including insurance, trust and sundry investment companies and organizations, the chartered and savings banks, etc., their participation in a secondary mortgage market as purchasers and sellers is dependent upon the impact of diverse factors present from time to time and varying with the type of holder. For the seven years ending with 1960, sales of insured mortgages recorded have amounted to $247 million, made up of $164 million by chartered banks, $32 million by life insurance companies, $47 million by other lenders and $3 million by Central Mortgage and Housing Corporation.

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Corporate pension funds purchased $160 million, other corporations $82 million, approved lenders $4 million and individuals $1 million. During 1961, Central Mortgage and Housing Corporation put up for sale $51 million of insured mortgages held by it, of which some $41 million were either sold or optioned. Bids were received from chartered banks, trust companies and investment dealers and it is indicated that for the most part mortgages sold by option were ultimately sold to pension funds.

68. Purchasers of insured mortgages in the main have been investment institutions. Individuals have participated only very little. To the extent that the investment institutions concerned would not otherwise have directed some of their funds into residential mortgages, progress has been made in the establishment of an orderly market for insured mortgages. While this is a step forward, much remains to be done to develop an active and steady market as this requires considerable interest on the part of the general public. The more optimistic among the advocates of an active and substantial secondary market hope that the general public will come to view insured mortgages in the same light as it does bonds and debentures which command a ready market and that, in consequence, individuals and sundry organizations and funds will come to use balances in savings accounts for the purchase of mortgages, particularly insured mortgages, or will reduce their purchase of bonds and securities and invest in mortgages. This will not be brought about quickly nor easily as it will

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Mortgage and Housing Corporation [illegible] for only $31
million of insured mortgages held by it, of which some
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require a campaign of education over considerable time to make the public mortgage-minded. Mortgages lack liquidity and the establishment of an organized market place with quoted "bid" and "ask" prices will be necessary if the individual is not to have difficulty finding a seller or a buyer. The mortgage instrument is not readily adaptable to purchase and sale. Because of the specialized risks involved, it is an instrument which requires attention by professionals who have access to reserve funds in day to day administration and in case of trouble -- a sort of attention which individuals generally are incapable of giving. While "insured" mortgages go a long way in giving protection against loss, there are areas of loss which remain unprotected. Unlike bonds and other securities which can be had in $100 or $500 pieces, mortgages come in much larger pieces, perhaps in the average of $11,000 for insured mortgages. There are not many individuals with sufficient money or willing to invest in such large pieces. This will be overcome as existing mortgages are paid down but this will take considerable time owing to the annuity plan of repayment over a long term of years requiring only small repayments of principal in the early years -- on a 30 year 6½ per cent mortgage of $1,000 after 10 years' repayments, the principal owing is still $845. Repayments of small amounts each month present the additional problem of reinvestment to the individual.

69. The difficulties present in obtaining the direct participation of the general public --

individuals and sundry funds and organizations -- in mortgage investment are very real and of long standing. Its indirect participation, however, has been very real and substantial and has taken place by the pooling of its funds through the operations of savings institutions including insurance, loan and trust companies, chartered and savings banks, and sundry other gatherers of savings who make mortgage loans. However, there is a view held by builders and others that more of the public's savings should be directed to the financing of residential construction and that this might be accomplished if holders of mortgages were prepared to sell their holdings and invest the proceeds in other mortgages by making new mortgage loans. In the last few years financial companies and new loan companies have been formed some apparently with the intention of purchasing mortgages while others with the intention of making mortgage loans as well as of purchasing mortgages. As with member loan companies, these new financial corporations and loan companies have authority to sell their securities to the public in order to obtain funds to carry on their activities and the extent of their operations will depend on their success in attracting funds from the public. To the extent that such new companies confine their operations to the purchase of mortgages, or substantially so, a steady and adequate supply of purchasable mortgages will be required at prices providing yields to the purchasing companies sufficient to enable them to cover their cost of borrowed money, administration, provision for taxes and

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reserve for possible losses and to provide a satisfactory return to shareholders. Under conditions where such a supply is unavailable, the generating of mortgage loans will be necessary either directly by these corporations and companies or by others for the account of such corporations and companies. The exercise of their power of agency association by member loan companies could be of assistance in the generating of mortgages for the account of those financial corporations and new companies who prefer not to engage in the making of mortgage loans.

National Housing Act and the Existing House

70. One of the effects of the enactment of housing legislation by Parliament and the successive liberalization of mortgage credit which has taken place under it has been to shrink the new residential mortgage lending field open to conventional mortgage loans. At the present time, the maximum amount of loan obtainable under the National Housing Act insured mortgage is greater than the amount obtainable under the two-thirds conventional mortgage pattern until a $21,726 lending value is reached.

This means that for new residential construction with a lending value of less than $21,726, conventional mortgages in many cases are unattractive to would-be borrowers. As far back as 1953 there has been agitation for the extension of the Act to make available insured mortgage loans in respect of the existing house. It is argued by the advocates of this that it has become

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National Housing Act and the Existing House

70. One of the effects of the enactment of housing legislation by Parliament and the successive liberalization of mortgage credit which has taken place under it has been to shrink the new residential mortgage lending field open to conventional mortgage loans. At the present time, the maximum amount of loan obtainable under the National Housing Act insured mortgage is greater than the amount obtainable under the two-thirds conventional mortgage pattern until a $21,7[illegible] lending value is reached. This means that for new residential construction with a lending value of less than $21,72[illegible], conventional mortgages in many cases are unattractive to would-be borrowers. As far back as 1955 there has been agitation for the extension of the Act to make available insured mortgage loans in respect of the existing house. It is argued by the advocates of this that it has become

more difficult to sell new houses financed under the Act and that a new band of purchasers would be created among the owners of existing houses if the sale of existing houses could be financed through the more liberal mortgage credit of the National Housing Act. It is said by builders' organizations that there is a potentially substantial market among people who wish to buy new houses and who might be prevailed upon to do so, if their present house could be sold at prevailing prices for cash, or nearly so, without having to take back a large second mortgage from the purchasers as part payment. Among the reasons advanced in support of this by its advocates may be cited:-

a. A new market for new houses would be created resulting in the building of more new houses thus creating employment with benefit to the economy generally, including a more stable house building industry arising from a broader and steadier market.

b. It would free for occupation by larger families many bigger houses now occupied by older people or people without family thus bringing about a more economic use of housing space. On the one hand, it is said, many such people would like to move to a smaller house but are deterred from so doing because they dislike selling and having to accept paper as part payment to the extent required by the conventional mortgage

pattern. On the other hand, larger families must look to the older existing houses for shelter because few large houses are built within a price range and income ratio such families usually can afford and such large families are unable to purchase older existing houses because they do not possess the greater down payment required by the owners of such houses in the absence of a more liberal mortgage pattern.

c. Now that the shortage of housing resulting from the absence of building during the war years has been largely met, Government assistance should no longer be given to those who wish to occupy new houses to the exclusion of those who prefer or are forced to occupy existing houses.

It is doubtful that many more new houses would result from this move. Rather, it could well be that the diversion of funds to the financing of existing houses would result in less money being available to finance new houses or, in the alternative, would require that more government funds be directed into new housing. It does not necessarily follow that the proceeds of an insured loan on an existing house would be directed into new housing. Such proceeds could have a variety of uses including the purchase of a car, a boat, other consumer goods or used for travel or investment. Because of the prepayment privileges already discussed, such proceeds

could be used by the owner merely to obtain cash or refinance an existing mortgage to his advantage meanwhile continuing to own and occupy the same house. While there are some, it is doubtful that there are very many persons who do not buy new houses just because they cannot obtain all cash or cash down to the mortgage on the sale of existing houses. In many cases the impediment to sale may well be too high an asking price. The increased demand for existing houses engendered by the more liberal terms of the insured mortgage would quite likely operate to raise prices for existing houses and, to the extent that it would create demand for new housing, tend to raise prices on the new house.

71. Member loan companies are disturbed at the thought that their field of operation may be curtailed further as would be the case were insured mortgage loans made available to finance existing houses. That field has already been curtailed by the availability of insured mortgage loans on new houses. Their inability to participate in insured mortgage lending on the new house in its present pattern has already been discussed and, under that pattern, they would also be unable to participate in insured mortgage lending on the existing house. The companies are firmly of the view that government backing should not be used as a means of depriving them of business already on their books or as a means of curtailing their activities in the existing house mortgage field. They believe it to be wrong in principle that government backing should be

[illegible] or

[illegible]

[illegible]

In its case, [illegible] that there are

represent [illegible] do not [illegible] houses just be-

cause they [illegible] each due to the

[illegible] on the sale of existing houses. In most

cases the introduction [illegible] will be too high an

asking price. The increased demand for existing houses

engendered by [illegible] the increased

[illegible] likely [illegible]

for existing houses [illegible] to the extent that it would

create demand for new housing, tend to reduce prices

of the new houses.

11. Member loan associations are disturbed by the

thought that their level of operation may be curtailed

[illegible] as would be the case [illegible] insured mortgage

loans [illegible]

field has already been [illegible] by the availability

of insured mortgage [illegible]. Their [illegible]

[illegible] lending on

the [illegible] already been

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

used to enable home owners to cash in on their investment and to be discriminatory against forms of investment other than housing. Moreover, most existing houses can be sold today at a profit over the homeowner's investment. While the companies have no objection to a homeowner making a profit on the sale of his house, they feel strongly that government backing should not be the means whereby not only is the investment recovered but a profit as well.

Further, the companies consider the case in favour of making insured mortgage loans available for the financing of existing houses to be doubtful, if not weak, and they believe that insured mortgage loans should continue to be available only for the financing of new housing.

Income and Expenditure

72. The income and expenditure statement of loan companies registered in Ontario drawn up in accordance with the practice adopted by that province is set out in Appendix 7. The tabulation below summarizes this statement and relates it in percentage to the mean of assets in use during 1960 and 1956 and to the average of assets in use during the five years ending with 1956.

ment to enable home owners to cash in on their inve-
ment and to be also [illegible] against some of invest-
ment rather than on sale). [illegible]
can be sold today at a profit over the homeowner's in-
vestment. While the committee have no objection to a
homeowner making a profit on the sale of his house,
they feel strongly that government building should not
be the means whereby not only is the investment re-
covered but a profit as well.

Accordingly, the committee view the case in
favour of making use of mortgage loans available for
the financing of existing houses to be doubtful, if not
weak, and they believe that federal mortgage loans
should continue to be available only for the financing
of new housing.

Income and Expenditure

71. The income and expenditure statements of the
committees [illegible] in uniform manner [illegible]
with the [illegible] statements [illegible] are set out
in Appendix I. The committee [illegible]
[illegible] to the [illegible]
[illegible] 1950 and 1951 [illegible]
of assets [illegible] the five years ending [illegible]

	1960		1960-56 incl.		1956	
	$.000	Per Cent	$.000	Per Cent	$.000	Per Cent
Mean of Assets in use	$562 million				$399.5 million	
Average of Assets in use			$472.7 million			
Gross Income	38,478	6.846	30,370	6.425	24,098	6.032
Gross Expenditure	29,279	5.210	21,637	4.577	16,215	4.058
Profit before Income Tax	9,199	1.636	8,733	1.848	7,883	1.974
Income Tax	4,369	.777	3,798	.804	3,232	.809
Profit after Income Tax	4,830	.859	4,935	1.044	4,651	1.165
Dividends Declared	3,828	.681	3,424	.724	3,032	.759
Retained in use	1,002	.178	1,511	.320	1,619	.406

Thus on the mean of assets in use of $562 million in 1960 the profit after income tax was .859 per cent of such assets whereas on the average of such assets amounting to $472.7 million in the five years ending with 1956 this profit was 1.044 per cent. While gross income was rising, gross expenditures were rising by a greater amount, the profit before income tax in 1960 of 1.636 per cent compared with that of 1.848 per cent for the five year average.

73. In Appendix 7, information is given in respect of 1945 and some prior years merely as a matter of historical interest. In 1928 there were 25 companies while in 1960 there were only 9 covered by the information. At the end of 1928, these companies had assets of $230 million and they had made a profit of $5,335 million after tax while in 1960 the companies had assets of $593 million and they had a profit of $4,830 million after tax.

74. As is to be expected interest is the big factor in the revenue account of loan companies. These items of interest cost are given in detail in Appendix 7. The average rates earned and paid, as calculated by the Registrar of Loan and Trust Corporations for Ontario and as published in his annual reports are as below:

	Paid		Earned			
Average Rates - Percentages	Deposits	Debentures	Mortgages	Collateral Loans	Debentures Bonds	Stocks
1960	2.54	4.68	7.04	8.76	4.58	5.79
1959	2.68	4.37	6.86	6.42	4.08	5.37
1958	2.57	4.20	6.70	7.73	4.20	4.84
1957	2.62	3.82	6.65	5.95	3.44	5.02
1956	2.29	3.71	6.42	4.85	3.51	5.33
1955	2.18	3.61	6.27	5.23	3.42	5.39
1954	1.97	3.64	6.12	.71	3.52	5.23
1953	1.62	3.30	5.86	.69	3.32	5.17
1952	1.60	3.18	5.70	.97	3.32	9.22
1951	1.64	2.99	5.60	.77	3.14	4.35
1945	1.61	3.39	6.50	2.75	2.79	4.99
1938	1.86	3.76	5.61	6.04	3.85	5.73
1933	3.74	4.57	6.54	9.01	5.18	5.85
1928	3.59	4.95	6.83	6.38	5.48	*

* Stocks and Bonds combined.

75. Paragraph 72 relates items of income and expenditure to the mean or average of assets in use. In the following tabulation the same technique is used in respect of the principal interest items.

	1960		1960-56 incl.		1956	
	$.000	Per Cent.	$.000	Per Cent	$.000	Per Cent
Mortgages - Mean or Average	$443.5 million		$369.8 million		$309.5 million	
Interest Earned	31,204	7.035	24,865	6.724	19,869	6.420
Debentures - Mean or Average	$341.5 million		$262.5 million		$200.5 million	
Interest Paid	16,607	4.863	11,082	4.222	7,427	3.704
Deposits - Mean or Average	$130.5 million		$126.5 million		$119.5 million	
Interest Paid	3,283	2.516	3,217	2.543	2,743	2.295
Debentures and Deposits	$472 million		$389 million		$320 million	
Interest Paid	19,890	4.214	14,300	3.676	10,170	3.178

While the rate of return was rising in this period of five years on the portfolio of mortgages, the rate of interest cost on debenture and on deposit liabilities and on the aggregate of them was also rising but to a greater extent.

76. Loan company debenture and deposit liabilities have already been described. Because the rate of interest offered is the more important of the competitive factors involved in obtaining funds from the public, it has to be such as will be successful in so doing in the amounts and at the times required by the loan company seeking the funds. To obtain these funds, the loan company concerned will have to compete with other loan companies and with other gatherers of savings. Where the funds desired have not been forthcoming, a loan company will increase its efforts to sell debentures and to attract deposits and, if these efforts do not produce results, it will offer a higher interest rate, with or without other inducements in a further effort to attract funds. If the achievement of this result would call for an

	[illegible]	[illegible]	[illegible]
Mortgages - Return Average	[illegible] million	[illegible] million	[illegible] million
Debentures - Interest Average	[illegible]	[illegible] million	[illegible] million
Interest Paid	[illegible]	[illegible]	[illegible]
Deposits - Interest Average	[illegible]	[illegible]	[illegible]
Interest Paid	[illegible]	[illegible]	[illegible]
Debentures and Deposits	[illegible] million	[illegible] million	[illegible] million
Interest Paid	[illegible]	[illegible]	[illegible]

While the rate of return has risen in this portion of five years on the portfolio of mortgages, the rate of interest cost on debentures and on deposit liabilities and on the aggregate of them has also risen but to a greater extent.

71. Loan company resources and competitive [illegible] have already been described. Because the rate of interest offered is the more important of the competitive factors involved in obtaining funds from the public, it has to be such as will be successful in attracting the [illegible] and at the times required by the loan company seeking the funds. To obtain these funds, the loan company competes [illegible] and with other gatherers of savings. When the funds desired have not been forthcoming, the loan company will increase its offers to call forth funds [illegible] deposits and, if these efforts do not produce results, it will offer a higher interest rate, which [illegible] other institutions in [illegible]. If the achievement of this result [illegible] will [illegible]

unprofitable borrowing rate in relation to the rate of return expected from the contemplated mortgage loans, the volume of such loans may be curtailed until the situation rectifies itself or until the lending rate obtainable in competition with other lenders rises to again produce a satisfactory yield. Where the situation is such that mortgage loans of the type and quality desired are difficult to obtain or are unobtainable at a sufficient rate of return, sales of debentures will be curtailed and efforts made to discourage deposits of larger amounts or sales of debentures will continue at a lower rate of interest in keeping with the attainment of a satisfactory rate of return on obtainable mortgage loans. Because deposit liabilities are demand obligations, there will be hesitation in lowering the rate of interest on them lest it give rise to the withdrawal of deposits and there will be hesitation in increasing it because the higher rate will be costly inasmuch as it will apply to existing deposits as well as to new ones. Thus, changes in interest rates on deposit liabilities will not be frequent nor will they be made unless a substantial advantage is expected from the change.

77. Where the debenture liability arose from issues wholesaled to investment dealers and by them retailed to the public, the same broad considerations respecting debentures outlined in paragraph 76 will apply except that the determination of the debenture interest rate, term and other conditions of borrowing will take place at the time of issue and be related to

[illegible] reporting bank in relation to the rate of [illegible] expected that the commercial and mortgage loans, the volume of such loans may be curtailed until the situation rectifies itself or until the lending rate obtainable in competition with other lenders rises to again produce a satisfactory yield. Where the situation is such that mortgage loans of the type and quality desired are difficult to obtain or are unobtainable at a sufficient rate of return, sales of debentures will be curtailed and efforts made to discourage deposits of larger amounts or sales of debentures will continue at a lower rate of interest in keeping with the attainment of a satisfactory rate of return on obtainable mortgage loans. Because deposit liabilities are demand obligations, there will be hesitation in lowering the rate of interest on them lest it give rise to the withdrawal of deposits and there will be hesitation in increasing it because the higher rate will be costly in-[illegible] as it will apply to existing deposits as well as to new ones. Thus, changes in interest rates on deposit liabilities will not be frequent nor will they be made unless a compelling circumstance is presented upon the [illegible]

[illegible] Where the deposit liability arises from [illegible] wholesale [illegible] interest [illegible] and by the [illegible]

[illegible] of [illegible] [illegible] [illegible] exact [illegible] of the [illegible] [illegible] of [illegible] will [illegible] of the [illegible]

the conditions obtaining in the securities market at the time or issue rather than at shorter intervals as is the case where the debentures are sold from day to day.

78. Loan companies have a steady inflow of cash in volume depending upon the size of the company and arising from past loans and investments. This inflow is in the nature of a revolving source of funds from which to repay maturing debentures and make new loans and enable the companies to take care of every day requirements. Thus decisions to borrow, renew or retire debenture obligations or to raise or lower interest rates can be taken in an unhurried atmosphere after due consideration of the possible results of such decisions.

79. Interest rates on mortgages are governed by the demand for mortgage loans in relation to the supply of funds seeking an outlet into mortgages. Both the demand and supply factors differ in respect of different types of property and so the interest rate applicable to mortgages on property other than residential property will differ from that applicable to mortgages on property other than residential. Likewise, there may be variations as between mortgages on single houses and those on apartments and other rental properties and as between different types of commercial and other business properties. Similarly, there may be variations in rates depending upon the location of the property due to added costs of administration. Where there appears to be an added element of risk, that will be reflected in a higher rate. It does not necessarily follow, however, that a lender will have a great variety of rates as, for reasons of ease

and cost of administration, he may decide on a pattern of two or three rates.

80. It has already been pointed out that there is great competition for mortgage loans and that there are various types of lenders in the field and numerous lenders in each type, some with substantial funds and some with modest funds. Each lender has a rate of return at which he would like to put his funds to work and he will endeavour to obtain it. Where that rate is at a level where it will not attract mortgage loans of the quality and type he desires, he will have to lower his rate to a level where it is competitive with that of other lenders seeking similar loans or be unable to obtain the mortgage loans he seeks in the quantity he desires. Where the rate he seeks to obtain is lower than that of other lenders, he is free to lend at the lower rate but he is more likely to raise his rate to that of other lenders on the same type of property. In this connection, it must be remembered that the interest rate is only one of the factors of competition and that a lender may be able to maintain his rate at the level he desires by making a larger loan. Likewise, a lower rate than the going rate may be reflected in a smaller amount of loan.

81. Loan companies are part and parcel of this competition. To survive, a loan company must obtain a rate of return which will cover the cost of borrowed money, the cost of administration, provision for losses, provision for taxes, compensation to shareholders and, if it is to progress, provision for retention in the

[illegible] definite policy, he may decide on a pattern of two or three types.

30. It has already been pointed out that there is great competition for mortgage loans and that there are various types of lenders in the field and numerous lenders in each type, some with substantial funds and some with modest funds. Each lender has a rate of return at which he would like to put his funds to work and he will endeavour to obtain it. Where that rate is at a level where it will not attract mortgage loans of the quality and type he desires, he will have to lower his rate to a level where it is competitive with that of other lenders seeking similar loans or be unable to obtain the mortgage loans he seeks in the quantity he desires. Where the rate he seeks to obtain is lower than that of other lenders, he is free to lend at the lower rate but he is more likely to raise his rate to that of other lenders on the same type of property. In this connection, it must be remembered that the interest rate is only one of the factors of competition and one lender may be able to maintain his rate at the level he desires by making a larger loan. Likewise, a lower rate than the going rate may be reflected in a smaller amount of loan.

31. Loan companies are part and parcel of this competition. To survive, a loan company must obtain a rate of return which will cover the cost of borrowed money, the cost of administration, provision for losses, provision for taxes, compensation to shareholders and, if it is so necessary, provision for reserves in the

company of an amount it considers necessary for its growth. This rate of return is the minimum on which is based the asking rate with which the market will be tested. Like other participants in the market for mortgage loans, each loan company is subject to its discipline. If its rate is too high, it will experience difficulty in obtaining mortgage loans and it will have to adjust its rate to a competitive level to obtain loans of the quality and in the quantity it desires.

82. As set out in the tabulation contained in paragraph 75 on the mean of mortgage portfolios in 1960 and 1956 and on the average of such portfolios during these five years, interest was earned at the rates of 7.035 per cent, 6.430 per cent and 6.724 per cent. Because member loan companies do almost no National Housing Act business, these rates pertain to conventional mortgage loans. It is not possible to submit information pertaining to the rate of interest at which the mortgages were written because this type of information is not generally collected by mortgage lenders. However, one nationally operating loan company has maintained such statistics and these are set out in Appendix 9, showing for each year 1917 to 1961 inclusive the average on new business accepted, on business renewed during the year and on the aggregate. This is not necessarily typical and is only submitted to indicate a relative trend of rates over the period.

83. Costs of administration and operation ("all other" shown in Appendix 7) related to the mean or average of assets administered have been:

1952	1.371
1953	1.373
1954	1.343
1955	1.271
1956	1.239
1957	1.249
1958	1.336
1959	1.326
1960	1.289
1956-1960	1.281

These costs include commissions on sale of debentures, other commissions, advertising, audit fees, directors' fees, furniture and fixtures, legal fees, postage, telegrams, telephones and express, printing and stationery, rents, salaries, staff pension plan, travelling and miscellaneous.

84. In addition to the shareholders' audit required by law, the companies audit their branches, either by a system of internal audit or by outside auditors or both. Branches are visited regularly by head office inspectors and head office accounting maintains accounting controls of the operations of branches. Employees are bonded, often by a banker's blanket bond. Mortgage loans are either approved or confirmed by head office and the granting of such loans are reviewed by the Directors or a Committee of them. In their employment practices, the companies prefer young men who have a good education, not necessarily university, and who show promise and likely aptitude for the kind of activity

carried on by a loan company. Loan companies generally prefer to train their employees and it is seldom that they go outside their own ranks to obtain men of senior calibre. Employees who show promise are encouraged to study various aspects, such as accounting, valuation and appraisal and often the companies contribute substantially to the cost.

85. Shareholders' equity, being paid in capital, surplus and reserves is shown in Appendix 4. Because of the accounting methods used in publishing the annual reports of the Registrar of Loan and Trust Corporations for Ontario, it is not possible to segregate specific reserves from surplus and reserves generally. In some cases, assets are netted, that is, they are shown after the deduction of specific reserves. It follows that the aggregate of all reserves is somewhat greater than shown in Appendix 4. It will have been noted from the tabulation contained in paragraph 72 that dividends declared are substantially smaller than 1 per cent when related to total assets in use. The following tabulation relates dividends declared to shareholders' equity as it stood at the beginning of the year.

Declared in	Per Cent to Equity	Declared in	Per Cent to Equity
1960	4.726	1953	3.956
1959	4.501	1952	3.702
1958	4.571	1951	3.261
1957	4.426	1945	3.337
1956	4.394	1938	3.148
1955	4.106	1933	4.612
1954	4.154	1928	5.018

86. Under Ontario legislation, loan companies report their assets at their book value. Under Federal legislation Federal and Provincial securities are reported at amortized value while other securities and stocks must be reported at market value, mortgages and other assets being reported at book values. The Registrar for Ontario and the Federal Superintendent may value or cause to be valued any asset which they believe may be over-valued and reserve against them in their published annual reports and may disallow assets ineligible under the legislation. Inasmuch as these reports are the basis upon which registration may be obtained or renewed with the possibility of their not being allowed to continue doing business, the companies will agree to set aside such reserves, special and general, as may be required and as requested by the supervisory authority concerned. Furthermore, the companies are conscious of their responsibilities towards their depositors, debenture holders and shareholders and have been anxious to set aside such reserves as may be indicated to be

desirable when circumstances arise suggesting the possibility of loss. The setting up of reserves is made difficult by the high rate of taxation under the Income Tax Act as only about one-half of the profits remains in the hands of the companies with which to remunerate the shareholders, to set up reserves and provide for the growth of the companies. Except for the chartered and Quebec savings banks, the act does not permit deductions for the setting-up of reserves against loss or contingencies. In the result, anticipated losses must be provided for out of tax-paid income by loan companies. It was this situation which led to representations over many years and which resulted in 1955 in amendments to the act permitting deductions for a stipulated reserve in respect of conventional mortgages, no deduction being permitted in respect of possible loss on securities including stocks or other assets. Based on the experience of the companies during the twenty year period ending with 1948, they asked for deductions of ½ of 1 per cent per year to a maximum of 5 per cent of the portfolio of mortgages and real estate holdings arising from mortgage loans. The amendment which was made applies to conventional mortgage loans and permits an annual deduction of ¼ of 1 per cent annually to a maximum of 3 per cent. While the amendment was welcomed as a start by member loan companies, they felt that the maximum permitted was too small and would take too long a time to accumulate. With the heavy demand for mortgage loans and the consequent large increase in their mortgage portfolios which has

taken place since the amendment was enacted, they believe that there is justification for an increase in the present maximum to 6 per cent accumulated by annual deductions of ½ of 1 per cent. The retention by them of funds which would otherwise be payable to the taxation authorities would thus be available to take care of losses when they arise. The method required to be followed by the Act in setting up and operating this reserve is in effect only a deferment of the tax, as established losses are deductible in the ordinary way and to the extent that a mortgage portfolio is decreased the reserve must be brought back into income in arriving at taxable income. The mortgage business is a long term proposition. The companies know that there will be losses on the mortgages which they hold but they do not know which ones will give rise to losses nor how large will be those losses -- they will not know this until the mortgages get into trouble or until they are paid off. In the event of trouble, income on which tax has been paid may turn out not to have been income at all -- they desire to continue to provide against such an eventuality by setting up a reserve for the purpose but they consider that the size of reserve allowed them is too small.

87. In preparing this submission, it has been the desire of member loan companies to be helpful to the Commission. If additional information is required of them, they will endeavour to obtain it.

Respectfully submitted,

J. Allyn Taylor
Association President

J.E. Fortin
Association Secretary-Treasurer

taken place since the amendment was enacted, they believe that there is justification for an increase in the [illegible] deductions of ½ of 1 per cent. The retention, by them of funds which would otherwise be payable to the taxation authorities would thus be available to take care of losses when they arise. The method required to be followed by the Act in setting up and operating this reserve is in effect only a deferment of the tax, as established losses are deductible in the ordinary way, and to the extent that a mortgage portfolio is decreased the reserve must be brought back into income in arriving at taxable income. The mortgage business is a long term proposition. The companies know that there will be losses on the mortgages which they hold but they do not know which ones will give rise to losses, nor how large will be those losses -- they will not know this until the mortgages get into trouble or until they are paid off. In the event of trouble, income on which tax has been paid may turn out not to have been income at all -- they desire to continue to provide against such an eventuality by setting up a reserve for the purpose but they consider that the size of reserve allowed them is too small.

3. In preparing this submission, it has been the desire of member loan companies to be helpful to the commission. If additional information is required of them, they will endeavour to obtain it.

Respectfully submitted,

Loan Companies Registered in Ontario and Loan Companies Supervised by the Federal Superintendent of Insurance, as at December 31, 1960

The first 7 named are members of The Dominion Mortgage and Investments Association.

	$ Thousands Assets
1. Canada Permanent Mortgage Corp. Head Office - Toronto Federal incorporation. Established 1855 - Operates in All provinces.	233,388
2. Credit Foncier Franco-Canadien Head Office - Montreal Quebec incorporation. Established 1880 - Operates in Quebec and all provinces West.	100,252
3. The Eastern Canada Savings and Loan Co. Head Office - Halifax Federal incorporation. Established 1887 - Operates in Maritime provinces and Newfoundland.	46,166
4. The Huron and Erie Mortgage Corporation Head Office - London Federal incorporation. Established 1864 - Operates in Quebec and all provinces West.	156,581

5. The Lambton Loan and Investment Co. Head Office - Sarnia Ontario incorporation. Established 1847 - Operates in Ontario.	11,731
6. The Ontario Loan and Debenture Company Head Office - London Ontario incorporation. Established 1870 - Operates in Ontario, Alberta and British Columbia.	44,547
7. Royal Trust Company Mortgage Corp. Head Office - Montreal Quebec incorporation. Established 1912 revived 1959 - Operates in all provinces except Alberta and Prince Edward Island.	2,550
8. Commonwealth Mortgage and Savings Corp. Head Office - Ottawa Ontario incorporation. Established 1959 - Operates in Ontario.	898
9. Family Mortgage Company Head Office - Toronto Ontario incorporation. Established 1959 - Operates in all provinces.	567
10. Gillespie Mortgage Corporation Head Office - Vancouver Federal incorporation. Established 1955 - Operates in British Columbia.	172

11.	International Savings and Mortgage Corp. Head Office - Winnipeg Federal incorporation. Established 1913 and 1920 - Operates in the the Prairie Provinces	2,519
12.	Nova Scotia Savings Loan and Building Head Office - Halifax Nova Scotia incorporation. Established 1849 - Operates in New Brunswick and Nova Scotia	19,016
13.	Yarmouth Building and Loan Society Head Office - Yarmouth Nova Scotia incorporation. Established 1880 - Operates in Nova Scotia	1,134

Loan Companies which were no longer in existence on December 31, 1960

1921 The London and Canadian Loan and Agency Company Limited.

Assets purchased by Canada Permanent Mortgage Corporation.

1922 The Dominion Savings and Investment Society.

Assets purchased by Huron and Erie Mortgage Corporation.

1922 The Waterloo County Loan and Savings Company became The Waterloo Trust and Savings Company.

1924 Victoria Loan and Savings Company became the Victoria Trust and Savings Company.

1926 ~~The~~ British Mortgage Loan Company of Ontario became The British Mortgage and Trust Corporation of Ontario.

1926 The Hamilton Provident and Loan Corporation.

Assets purchased by Huron and Erie Mortgage Corporation.

1926 The Hamilton Provident and Loan Corporation.

Assets purchased by Huron and Erie Mortgage Corporation.

1926 The Owen Sound Loan and Savings Company and The Grey Bruce Loan Company merged.

1926 Port Arthur and Fort William Loan and Savings Company went into voluntary liquidation.

1927 The British Columbia Permanent Loan Company.

Assets purchased by Canada Permanent Mortgage Corporation.

longer in existence on December 31, 1960

1921 The London and Canadian Loan and Agency Company Limited

Assets purchased by Canada Permanent Mortgage [illegible]

[illegible] The Dominion Savings and Investment Society.

Assets purchased by Huron and Erie Mortgage Corporation.

1922 The Waterloo County Loan and Savings Company became The Waterloo Trust and Savings Company.

1924 Victoria Loan and Savings Company became the Victoria Trust and Savings Company.

1926 The British Mortgage Loan Company of Ontario became The British Mortgage and Trust Corporation of Ontario.

1925 The Hamilton Provident and Loan Corporation

Assets purchased by Huron and Erie Mortgage [illegible]

1926 The Hamilton Provident and Loan Corporation.

Assets purchased by Huron and Erie Mortgage [illegible]

1925 The Owen Sound Loan and Savings Company and The Grey Bruce Loan Company merged.

1926 Port Arthur and Fort William Loan and Savings Company went into voluntary liquidation.

[illegible] The British Columbia Permanent Loan Company.

Assets purchased by Canada Permanent Mortgage [illegible]

1927 The Canada Landed and National Investment Company

Assets purchased by Canada Permanent Mortgage Corporation.

1927 The Royal Loan and Savings Company.

Assets purchased by Canada Permanent Mortgage Corporation.

1927 The Southern Loan and Savings Company.

Assets purchased by Huron and Erie Mortgage Corporation.

1928 The Industrial Savings and Mortgage Company became The Industrial Mortgage and Trust Company

1928 The East Lambton Farmers' Loan and Savings Company.

Assets purchased by Industrial Mortgage and Trust Company.

1929 Canadian Mortgage Investment Company retired from business.

1929 Brockville Loan and Savings Company became The Brockville Trust and Loan Company.

1929 The London Loan and Savings Company.

Assets purchased by Huron and Erie Mortgage Corporation.

1931 The People's Loan and Savings Corporation.

Assets purchased by Huron and Erie Mortgage Corporation.

1936 Crown Savings and Loan Company.

Assets purchased by Industrial Mortgage and Trust Company.

[illegible] Canada Landed and National Investment Company

Assets purchased by Canada Permanent Mortgage Corporation.

1907 The Royal Loan and Savings Company.

[illegible]

[illegible] The Southern Loan and Savings Company.

Assets purchased by Huron and Erie Mortgage Corporation.

[illegible] The Industrial Savings and Mortgage Company became The Industrial Mortgage and Trust Company

[illegible] The West Lambton Farmers' Loan and Savings Company.

Assets purchased by Industrial Mortgage and [illegible]

[illegible] Canadian Mortgage Investment Company retired from business.

[illegible] Brockville Loan and Savings Company became The Brockville Trust and Loan Company.

[illegible] The London Loan and Savings Company.

Assets purchased by Huron and Erie Mortgage [illegible]

[illegible] The People's Loan and Savings Corporation.

Assets purchased by Huron and Erie Mortgage Corporation

[illegible] [illegible] Savings and Loan Company

Assets purchased by Industrial Mortgage and [illegible]

1939 Security Loan and Savings Company.

Assets purchased by The Premier Trust Corporation

1943 Niagara Falls Loan and Savings Company.

Assets purchased by Guaranty Trust Company.

1944 The Landed Banking and Loan Company.

Assets purchased by Canada Permanent Mortgage Corporation.

1945 The Real Estate Loan Company of Canada Limited.

Assets purchased by Canada Permanent Mortgage Corporation.

1946 The Montreal Loan and Mortgage Company.

Assets purchased by Canada Permanent Mortgage Corporation.

1948 Midland Loan and Savings Company.

Assets purchased by Canada Permanent Mortgage Corporation.

1949 Peterborough Workingmen's Building and Savings Society went into voluntary liquidation.

1949 The Guelph and Ontario Investment and Savings Society.

Assets purchased by Huron and Erie Mortgage Corporation.

1958 The Toronto Mortgage Company.

Assets purchased by Canada Permanent Mortgage Corporation.

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Incorporation of Loan Companies

Federal

1. Parliament incorporates loan companies by Special Act which act specifies the capitalization and the conditions relating to commencement of business. Such companies are governed by the provisions of the Loan Companies Act, Canada but, as Parliament may determine, the provisions of the Act may be varied for particular loan companies. Loan companies operate in the provinces by virtue of a system of licensing or registration determined by their legislation which specifies the conditions of registration or licensing.

2. Majority of Directors must be residents of Canada and subjects of Her Majesty by birth or naturalization.

3. The nature of the investments and loans and the limitations and conditions applicable thereto are spelled out in the Loan Companies Act, as well as the types and limits of permitted borrowings and other conditions of operation.

4. Federally incorporated loan companies are subject to supervision and inspection by the Superintendent of Insurance for Canada.

British Columbia

5. Loan companies are incorporated under the Companies Act in the same way as trading companies. There are no special provisions for the incorporation of loan companies nor are there any provisions as to

the conduct of the business of a loan company, investment powers, borrowing powers etc., etc. Annual returns are made to the Registrar of Companies.

6. Where the charter authorizes the taking of deposits (the taking of deposits is "trust" business under the Trust Companies Act, British Columbia) a loan company is subject to the Trust Companies Act, British Columbia, unless it is "approved" by the Lieutenant Governor in Council, in which case, it is subject to only certain provisions of that Act including reporting and supervision. However, this does not apply to a loan company licensed by the Loan Companies Act, Canada but such a company may be required to complete and file such returns as may be prescribed by the Registrar of Trust Companies for the province.

7. Non-British Columbia loan companies require to be registered in order to do business in the province. Annual return to the Registrar is made in the form specified by the Act dealing with capitalization, directors, objects and the like.

Alberta

8. Loan companies are incorporated under the provisions of the Companies Act in the same way as trading companies. There are no provisions respecting the carrying on of the business of loan companies, investment powers, borrowing powers etc. Annual return to Registrar of Joint Stock Companies is required.

9. Non-Alberta loan companies require to be registered in order to do business in the province.

Annual return to Registrar is made in form specified by the Act as to capitalization, directors and the like.

Saskatchewan

10. Loan companies are incorporated under the Loan Companies Act of the province. Such companies have no power to take deposits. Bonds, debentures and other borrowings are limited to 4 times paid-up and unimpaired capital plus cash and war-loan securities of Canada and the Imperial Government. Authorized investments are set-out.

11. Non-Saskatchewan loan companies require to be registered or licensed under the Companies Act in order to do business in the province. Annual return must be made to the Registrar of Joint Stock Companies on capital structure names of directors etc.

12. Under the Companies Inspection and Licensing Act, an annual return containing information as to Saskatchewan business is required in order to obtain a license to do the business of a loan company. Loan companies may be inspected by the Superintendent of Insurance for Saskatchewan, except those inspected by the Federal Superintendent of Insurance.

Manitoba

13. Loan companies are incorporated under the Companies Act's special provisions dealing with loan companies. To commence business, at least $250,000 must be subscribed and $100,000 must be deposited in a bank.

14. Authorized investments together with

limitations are spelled out. Borrowings are limited to 4 times unimpaired paid-up capital and reserve plus cash and war-loan securities of Canada and United Kingdom.

15. There is provision for supervision and inspection by an appointed Superintendent or by the Federal Superintendent of Insurance. This applies to Manitoba incorporated loan companies, to those which the Provincial Secretary names and all companies that issue debentures in which Trustees in Manitoba may invest.

16. Annual return under Companies Act is required on capitalization, directors, debenture and last balance sheet.

17. All loan companies required to be registered and authorized to do the business of a loan company. Loan companies other than Manitoba or Federal require a special act of Manitoba to authorize them to do business in Manitoba.

Ontario

18. Loan companies are incorporated under the provisions of the Loan and Trust Corporations Act upon application to the Minister. The Act spells out in detail the nature and limitations of the investments and loans which may be made by a loan company and authorizes the taking of deposits and the issue of debentures, bonds and other obligations within the limits prescribed in the Act. It is provided that the majority of the directors must be residents of Canada

and subjects of Her Majesty by birth or naturalization.

19. No incorporated body or person acting on its behalf other than a corporation registered under the Act can undertake or transact the business of a loan company in Ontario.

20. The business of a loan company is defined as lending on the security of real estate (among other things) but does not extend to the purchase of or investment in mortgages. Companies who confine themselves to the purchase of or investment in mortgages and who do not make mortgage loans are not required to register as set out in paragraph 19 above.

21. Under the provisions of the Corporations Act applicable to corporations generally, companies may be incorporated to make mortgage loans and to purchase or invest in mortgages and such companies do not fall within the provisions of the Loan and Trust Corporations Act. However, such companies are limited to 5 shareholders, are prohibited from accepting deposits and may borrow only from their shareholders.

22. All loan companies are required to register (subject to the exceptions noted above) under the Loan and Trust Corporations Act, whether they be Federal, Ontario, other Provincial or Foreign incorporations. Companies with powers greater than those permitted to Ontario incorporations may be admitted to registry by special Act. Such special Acts usually require the loan company to exercise in Ontario only such of their powers as are permitted to Ontario incorporated loan companies.

23. Loan companies who make mortgage loans or who buy or invest in mortgages are not eligible for registry unless 95 per cent of those mortgages are first mortgages.

24. All registered companies are subject to the supervision and inspection of the Registrar of Loan and Trust Corporations. Annual voluminous returns are required to be made to the Registrar.

Quebec

25. Loan companies may be incorporated by letters-patent under the Companies Act or by Special Act. The Companies Act does not contain provisions respecting the carrying on of the business of loan companies, investment powers or borrowing powers. These depend on the provisions of the letters-patent or Special Act.

26. Such companies may be inspected by appointees of the Provincial Secretary.

27. Loan companies incorporated otherwise than by Quebec operate in the province only by virtue of a license from the Provincial Secretary (Loan and Investment Societies Act). They are required to sell within 10 years properties acquired through judicial sale or transfer from a borrower.

28. Under the provisions of the Companies Information Act, loan companies are required to make an annual return to the Provincial Secretary covering particulars of incorporations, directors and officers, amount of debenture debt, capital structure, transfer offices etc.

New Brunswick

29. Loan companies must be incorporated by Special Act. There is no general or special legislation applicable to the incorporation of loan companies. Each company is governed by its own Special Act.

30. All loan companies, irrespective of the situs of incorporation, must make an annual return to the Provincial Secretary-Treasurer containing the names of officers and directors, capitalization, capital employed in New Brunswick, etc. Per diem fines are exacted for delay in filing. Effect is the same as registration under Companies Act.

Prince Edward Island

31. Loan companies may be incorporated under the Companies Act or by Special Act. There are no special provisions governing loan companies, their powers and disabilities.

32. All companies doing a loan business must register under the Licensing or Registration Act and make an annual return.

Nova Scotia

33. Loan companies are incorporated by Special Act under the provisions of the Loan Companies Act of the province. This Act is similar to the Federal Loan Companies Act in some respects.

34. Deposits and borrowings are limited to 4 times unimpaired paid in capital and reserve plus cash on hand or deposit.

35. Loan companies are subject to supervision and

inspection by a Superintendent. By arrangement inspection and supervision may be carried out by the Federal Superintendent of Insurance.

36. Under the Loan Corporations Act, loan companies other than those with head office in the Province are required to register with the Registrar of Joint Stock Companies and to file a return based on the balance sheet.

37. Loan Companies, under the provisions of the Domestic, Dominion and Foreign Corporations Act, are required in order to do business in the Province to obtain a certificate of registration from the Registrar and to make an annual return on capitalization, particulars of directors and officers etc.

Newfoundland

38. Loan companies may be incorporated under the provisions of the Companies Act or by Special Act. There are no provisions respecting the carrying on of the business of a loan company, investment powers or borrowing powers etc.

39. All incorporations irrespective of situs must register and make a return under the Companies Act concerning capitalization names of directors and officers etc., as a condition of being allowed to do business in the province.

Appendix 4
Part 1

Loan Companies

Registered in Ontario

($ million)	1960	1959	1958	1957	1956	1955	1954
Assets							
Cash in Hand and Banks	10	13	9	10	8	10	9
Short Term Securities - 1 yr. or less	8	6	-	-	-	-	-
Government Bonds	41	35	37	33	31	42	45
Provincial Bonds	8	9	10	6	5	8	5
Municipal Bonds	5	5	5	3	4	5	4
Corporation and Other Bonds	12	8	12	5	3	3	4
Collateral Loans	1	2	1	4	3	2	2
Corporation Stocks	26	25	22	19	18	16	13
Sundry	1	1	2	1	1	3	1
Office Premises	11	11	9	9	8	6	6
Mortgages	471	416	373	340	325	294	264
Real Estate for Sale	1	1	2	2	2	2	2
Total	593	532	482	432	408	391	355
Liabilities							
Debentures and Accrued Interest	363	320	257	234	210	191	175
Deposits and Accrued Interest	135	126	139	120	117	122	108
Short Term Notes	6	3	3	-	5	5	1
Borrowed Money	1	1	1	-	-	-	1
All Other	4	1	1	3	4	4	4
	509	451	401	357	336	322	289
Paid in Capital	32	30	30	29	29	28	28
Surplus and Reserves	52	51	51	46	43	41	38
Total	593	532	482	432	408	391	355

Appendix 4
Part 2

Loan Companies

Registered in Ontario

($ million)	1953	1952	1951	1945	1938	1933	1928
Assets							
Cash in Hand and Banks	9	10	13	7	6	6	5
Short Term Securities - 1 yr.or less	-	-	-	-	-	-	-
Government Bonds	34	36	38	57	13	9	8
Provincial Bonds	3	4	4	7	-	2	2
Municipal Bonds	2	3	2	3	4	4	4
Corporation and Other Bonds	1	2	-	3	2	6	8
Collateral Loans	2	2	1	-	-	-	6
Corporation Stocks	11	12	12	13	10	10	10
Sundry	1	1	-	2	1	2	-
Office Premises	7	6	6	6	7	8	4
Mortgages	237	218	206	113	153	174	179
Real Estate for Sale	2	2	2	3	11	6	4
Total	309	296	284	214	207	227	230
Liabilities							
Debentures and Accrued Interest	149	138	132	92	105	114	104
Deposits and Accrued Interest	93	91	87	52	34	31	39
Short Term Notes	-	1	-	-	-	-	-
Borrowed Money	1	-	1	-	-	-	-
All Other	5	7	6	10	7	18	4
	248	237	226	154	146	163	147
Paid in Capital	28	27	27	32	34	36	39
Surplus and Reserves	33	32	31	28	27	28	44
Total	309	296	284	214	207	227	230

Appendix 4a
Part 1

Loan Companies

Registered in Ontario

(Percentage to Total)	1960	1959	1958	1957	1956	1955	1954
Assets							
Cash in Hand and Banks	1.6	2.4	1.9	2.3	2.0	2.6	2.5
Short Term Securities - 1 yr. or less	1.3	1.1	-	-	-	-	-
Government Bonds	6.9	6.6	7.7	7.6	7.6	10.7	12.7
Provincial Bonds	1.3	1.7	2.1	1.4	1.2	2.0	1.4
Municipal Bonds	.8	.9	1.0	.7	1.0	1.3	1.1
Corporation and Other Bonds	2.0	1.5	2.5	1.2	.7	.8	1.1
Collateral Loans	.2	.4	.2	.9	.7	.5	.6
Corporation Stocks	4.3	4.7	4.6	4.4	4.4	4.1	3.7
Sundry	.2	.2	.2	.2	.2	.8	.3
Office Premises	1.8	2.0	1.9	2.1	2.0	1.5	1.7
Mortgages	79.4	78.3	77.5	78.7	79.7	75.2	74.3
Real Estate for Sale	.2	.2	.4	.5	.5	.5	.6
	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Liabilities							
Debentures and Accrued Interest	61.2	60.2	53.4	54.1	51.5	48.9	49.3
Deposits and Accrued Interest	22.8	23.7	28.8	27.8	28.7	31.2	30.4
Short Term Notes	1.0	.6	.6	-	1.2	1.3	.3
Borrowed Money	.2	.2	.2	-	-	-	.3
All Other	.7	.2	.2	.7	1.0	1.0	1.1
	85.9	84.9	83.2	82.6	82.4	82.4	81.4
Paid in Capital	5.4	5.6	6.2	6.7	7.1	7.2	7.9
Surplus and Reserves	8.7	9.5	10.6	10.7	10.5	10.4	10.7
	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Appendix 4a
Part 2

Loan Companies

Registered in Ontario

(Percentage to Total)	1953	1952	1951	1945	1938	1933	1928
Assets							
Cash in Hand and Banks	3.0	3.4	4.6	3.3	2.9	2.6	2.1
Short Term Securities - 1 yr. or less	-	-	-	-	-	-	-
Government Bonds	11.0	12.2	13.4	26.6	6.3	4.0	3.4
Provincial Bonds	1.0	1.3	1.4	3.3	-	.9	.8
Municipal Bonds	.6	1.0	.7	1.4	1.9	1.8	1.7
Corporation and Other Bonds	.3	.7	-	1.4	1.0	2.6	3.4
Collateral Loans	.6	.7	.4	-	-	-	2.4
Corporation Stocks	3.6	4.1	4.2	6.1	4.8	4.4	4.2
Sundry	.3	.3	-	.9	.5	.9	1.2
Office Premises	2.3	2.0	2.1	2.8	3.4	3.5	1.7
Mortgages	76.7	73.6	72.5	52.8	73.9	76.7	77.4
Real Estate for Sale	.6	.7	.7	1.4	5.3	2.6	1.7
	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Liabilities							
Debentures and Accrued Interest	48.2	46.6	46.5	43.0	50.7	50.2	45.2
Deposits and Accrued Interest	30.1	30.7	30.6	24.3	16.4	13.7	17.0
Short Term Notes	-	-	-	-	-	-	-
Borrowed Money	.3	.3	.4	-	-	-	-
All Other	1.6	2.4	2.1	4.7	3.4	7.9	1.7
	80.2	80.0	79.6	72.0	70.5	71.8	63.9
Paid in Capital	9.1	9.1	9.5	14.9	16.4	15.9	17.0
Surplus and Reserves	10.7	10.9	10.9	13.1	13.1	12.3	19.1
	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Appendix 5

Loan Companies Registered in Ontario

Liquidity Provision

As described in paragraph 40.

Amount $ Million		Liquid Securities				
Dec. 31	Deposits	Cash	Dominion or Provincial Securities	Canadian City & Ont. Municipal Securities	Demand Loans	Total Liquid Securities
1960	134.9	9.9	48.8	4.4	0.2	63.3
1959	122.7	11.7	44.2	4.5	1.5	61.9
1958	135.8	8.4	46.1	4.9	0.2	59.6
1957	115.9	9.5	38.7	3.3	0.2	51.7
1956	117.1	7.9	36.4	3.6	0.1	48.0
1955	122.0	9.5	49.0	4.8	0.1	63.4
1954	107.8	8.9	49.4	2.8	0.1	61.3
1953	92.6	8.0	36.6	1.4	0.2	46.2
1952	91.3	8.1	39.0	2.1	0.1	49.4
1951	86.8	8.8	39.3	1.6	-	49.7
Percentage						
1960	-	7.3	36.2	3.3	.1	46.9
1959	-	9.5	36.0	3.7	1.2	50.4
1958	-	6.2	33.9	3.6	.1	43.9
1957	-	8.2	33.4	2.8	.2	44.6
1956	-	6.7	31.1	3.1	.1	41.0
1955	-	7.8	40.2	3.9	.1	52.0
1954	-	8.3	45.8	2.6	.1	56.9
1953	-	8.6	39.5	1.5	-	49.8
1952	-	8.9	42.7	2.3	-	54.1
1951	-	10.1	45.3	1.8	-	57.2

Appendix 5

Number of Loan Companies Registered in Ontario
with the following percentages of liquid
assets to deposit liability

Dec. 31	Below 20%	20% to 35%	35% to 45%	Above 45%	Number of Loan Companies
1960	-	-	1	4	5
1959	-	-	1	4	5
1958	-	1	-	5	6
1957	-	-	1	5	6
1956	-	1	-	5	6
1955	-	-	-	6	6
1954	-	-	-	6	6
1953	-	-	1	5	6
1952	-	-	-	6	6
1951	-	-	-	6	6

Loan Companies

Investment and Loan Powers

1. The investment and loan powers of loan companies incorporated by Parliament are contained in the Loan Companies Act, Canada. Those of loan companies incorporated by Ontario and those of loan companies registered to do business in Ontario are contained in The Loan and Trust Corporations Act, Ontario. While the provisions of these two acts are very similar, there are some differences and it can be said that the Federal act is more restrictive. Accordingly, the investment provisions of the Loan Companies Act, Canada are set out below with appropriate notations dealing with the more important differences.

Investment Powers

a. Securities of or guaranteed by Canada, its Provinces, the United Kingdom or a colony or dependency thereof, the United States or a state thereof, the International Bank for Reconstruction and Development, any municipal or school corporation in Canada, or secured by rates or taxes levied under authority of a Canadian province on property situated in such province and collectable by municipalities in which the property is situated.

<u>Ontario</u> also authorizes securities of

or guaranteed by other foreign countries, if interest on their securities has been paid regularly for the previous 10 years.

b. Securities of any company incorporated by Canada or any of its provinces that are secured by a mortgage to trustees or a trust corporation upon improved real estate of such company or other assets of the classes mentioned in (a) above.

c. Securities, secured and unsecured, of a company incorporated by Canada or any of its provinces where such company has earned and paid regular cash dividends of not less than 4 per cent per annum on its issued stock for a term of at least 5 years immediately preceding the date of investment in such securities.

Ontario does not limit to companies incorporated in Canada. It makes eligible such securities if they do not qualify where they are guaranteed by another company, if that company qualifies and if the amount guaranteed does not exceed 50 per cent of the guaranteeing company's preferred or common stock.

d. Preferred stocks of any company incorporated by Canada, or any of its provinces that has paid regular dividends upon such stocks or upon its common stocks

for not less than 5 years immediately preceding the purchase of such preferred stocks, or the stocks of any such company that are guaranteed by a company so incorporated that has paid regular dividends upon its preferred or common stocks for not less than 5 years immediately preceding purchase of such guaranteed stocks if the amount of stocks so guaranteed is not in excess of 50 per cent of the amount of the preferred or common stocks, as the case may be, of the guaranteeing company.

Ontario does not recognize guaranteed preferred stocks. Does not limit to companies incorporated in Canada.

e. Fully paid common stocks of any company incorporated by Canada or any of its provinces or any chartered bank in Canada which, in each year of a period of 7 years ended less than one year before the date of investment, has paid a dividend upon its common shares of at least 4 per cent of the average value at which the shares were carried in the capital stock account of such company or bank during the year in which the dividend was paid.

Ontario does not limit to companies incorporated in Canada.

f. Mortgages or hypothecs on real estate or

to not less than 5 years immediately preceding the purchase of such preferred stocks, or the stocks of any such company that are guaranteed by a company so incorporated that has paid regular dividends upon its preferred or common stocks for not less than 5 years immediately preceding purchase of such guaranteed stocks if the amount of stocks so guaranteed is not in excess of 50 per cent of the amount of the preferred or common stocks, as the case may be, of the guaranteeing company.

Ontario does not recognize guaranteed preferred stocks. Does not limit to companies incorporated in Canada.

6. Fully paid common stocks of any company incorporated by Canada or any of its provinces or any chartered bank in Canada upon which, in each year of a period of 7 years ending less than one year before the date of investment, there has been paid a dividend upon its common stocks of at least 4 per cent of the average value at which the stocks were carried in the capital stock account of such company [illegible] [illegible] the year in which the dividend was paid.

Ontario does not limit to companies incorporated in Canada.

7. Mortgages, or hypothecs on real estate or

leaseholds in Canada, or elsewhere where the company is carrying on business, but the amount paid for the mortgage or hypothec, together with the amount of indebtedness ranking superior, shall not exceed two-thirds of the value of the real estate or leasehold.

g. Mortgages insured under the National Housing Act, 1954, and other classes of investment allowed by that Act, the latter being limited to 5 per cent of the company's total funds.

h. Real estate in Canada for the production of income if a lease of the real estate is made to or guaranteed by a corporation whose preferred or common stocks would qualify for investment; and where the lease provides for a net revenue sufficient to pay a reasonable rate of interest and to repay at least 85 per cent of the amount invested within a period not exceeding 30 years.

The total investment of the loan company in any one parcel of real estate is limited to 1 per cent of the book value of the loan company's total funds. The total that may be invested in such real estate is limited to 5 per cent of the loan company's total funds.

i. Investments and loans not otherwise

authorized so long as book value of investments and loans so made and held by the company, excluding those that are or have become eligible apart from this provision, do not exceed 15 per cent of the company's unimpaired paid up capital and reserve. This provision does not enlarge the power to invest or lend on the security of real estate, mortgages, charges and hypothecs.

j. <u>Ontario</u> permits investment in securities subsidized by Canada or any of its provinces.

k. <u>Ontario</u> permits investment in equipment trust certificates of a railway or highway transportation company in Canada.

l. <u>Ontario</u> permits investment in the assignment of life insurance policies with cash surrender value admitted by the insurer.

Loan Powers

m. Securities mentioned in (a) and (b) above.

<u>Ontario</u> permits loans on the security of life insurance policies with cash surrender values admitted by the insurer and securities of foreign countries as noted in (a) above.

n. Securities of any company incorporated in Canada, other than those described in (b)

above, if the market value of the securities on which the loan is made exceeds the amount of the loan by at least 20 per cent of such market value, or 20 per cent of the par value whichever is less but the amount loaned on the security of the stocks of any such company shall not exceed 25 per cent of the market value of the total stocks of such company.

Ontario does not limit to companies incorporated in Canada. The amount loaned on the security of stocks is limited to 10 per cent of the market value of total stocks of such company.

o. Real estate or leaseholds in Canada or elsewhere where the company is doing business subject to the same two-thirds per cent limitation as obtains for investment in mortgages.

In addition to the limitations included in the above description, other limitations and prohibitions also apply:-

p. The total book value of a company's investment in common stocks may not exceed 15 per cent of the book value of the loan company's total funds, where such loan company receives money on deposit or borrows by the issue of bonds, debentures

or other securities. Not more than 30 per cent of the common stocks and not more than 30 per cent of the total issue of the stocks of any company or bank may be purchased by a loan company. Does not apply to stock of a trust company where at least 50 per cent of the stock was held on June 28, 1922.

Ontario has no provision comparable to this 15 per cent. See provision re stocks of any one company.

q. A loan company's investment in or upon the security of the debentures, bonds, stocks and other securities of a company may not exceed 20 per cent of the debentures, bonds, stock or other securities issued by such company.

Ontario. No investment the effect of which will be that the loan company will hold more than 20 per cent of the stock or more than 20 per cent of the debentures of any one corporation, company or bank. This applies since April 14, 1925.

r. A loan company may not lend any of its funds on the security of vacant land not used for agricultural purposes.

Ontario permits investments in and loans on improved real estate only.

s. No loans may be made by a loan company to any of its directors, or to the wife or any of its directors.

Ontario applies this prohibition to auditors as well.

t. A loan company may not lend or advance money upon the security of its own shares or upon the security of the shares of any other loan company.

Ontario. See Note under (q).

u. A loan company may not lend upon the security of or purchase or invest in bills of exchange or promissory notes.

Ontario does not deal specifically with this.

v. Not more than 35 per cent of a loan company's unimpaired capital and reserve may be laid out or expended in respect of real and immovable property as is necessary for its actual use and occupation and the management of its business.

w. Real estate acquired by foreclosure or otherwise consequent upon a loan or investment by way of mortgage or hypothec must be disposed of within 12 years from the date of acquisition under penalty of forfeiture.

x. Ontario. After April 14, 1925 no loan

company may invest in any one security more than 15 per cent of its own paid in capital stock and reserve or make a total investment in any one company maturing in more than 1 year of an amount exceeding 15 per cent of its own paid in capital and reserve. In respect of an investment maturing in 1 year or less, the limit is 20 per cent of its own paid in capital and reserve plus 5 per cent of moneys borrowed on debentures and by way of deposits.

Appendix 7
Part 1

Loan Companies Registered in Ontario

($ Thousand)	1960	1959	1958	1957	1956	1955	1954
Income							
Interest on Mortgages	31,204	27,243	23,887	22,119	19,869	17,516	15,321
Collateral Loans	152	97	60	22	18	29	15
Bonds & Debentures	3,105	2,587	2,345	1,572	1,784	1,981	1,733
Bank Deposits	6	84	6	1	7	7	8
Others	315	221	106	137	94	88	92
Dividends	1,471	1,273	992	924	904	775	630
	36,253	31,505	27,396	24,775	22,676	20,396	17,799
Rents Earned Net	953	995	1,127	974	1,018	948	994
Agency Fees & Commissions	82	317	303	55	62	59	56
Sundry Revenue	337	285	344	196	128	130	63
Profit on Sale - Securities & Real Estate	853	350	313	341	214	604	543
	38,478	33,452	29,483	26,341	24,098	22,137	19,455
Expenditure							
Interest on Debentures	16,607	12,610	10,309	8,459	7,427	6,607	5,905
Deposits	3,283	3,555	3,340	3,165	2,743	2,502	1,977
Others	249	28	11	10	11	10	3
	20,139	16,193	13,660	11,634	10,181	9.119	7,885
Licenses & Corporation Tax	140	126	126	124	113	126	154
All Others	7,247	6,716	6,106	5,246	4,950	4,742	4,459
Transfers to Investment Reserves	1,098	1,424	48	611	769	650	454
Assets Written Down	655	234	210	232	202	160	151
Loss on Sale - Securities & Real Estate	-	-	-	-	-	-	-
	29,279	24,693	20,150	17,847	16,215	14,797	13,103
Profit before Income Tax	9,199	8,759	9,333	8,494	7,883	7,340	6,352
Income Tax	4,369	4,138	3,710	3,542	3,232	3,198	3,053
Profit after Income Tax	4,830	4,621	5,623	4,952	4,651	4,142	3,299

Appendix 7
Part 2

Loan Companies Registered in Ontario

($ Thousand)	1953	1952	1951	1945	1938	1933	1928
Income							
Interest on Mortgages	13,325	12,049	11,123	6,546	8,380	11,356	11,938
Collateral Loan	15	15	13	14	20	40	376
Bonds & Debentures	1,434	1,490	1,415	1,945	828	1,113	2,058
Bank Deposits	6	10	7	41	26	74	55
Others	54	43	26	13	9	13	228
Dividends	594	613	655	711	573	593	-
	15,428	14,220	13,239	9,270	9,836	13,189	14,655
Rents Earned Net	1,221	357	333	219	246	381	230
Agency Fees & Commissions	19	12	9	49	38	39	26
Sundry Revenue	137	875	690	386	223	235	61
Profit on Sale - Securities & Real Estate	137	166	246	487	53	242	-
	16,942	15,630	14,517	10,411	10,396	14,086	14,972
Expenditure							
Interest on Debentures	4,742	4,283	3,722	3,051	3,921	5,524	4,663
Deposits	1,494	1,426	1,451	874	664	1,159	1,315
Others	7	8	9	27	4	40	47
	6,243	5,717	5,182	3,952	4,589	6,723	6,025
Licenses & Corporation Tax	162	2,616	2,523	706	273	583	616
All Others	4,147	3,972	3,537	2,209	1,991	2,570	2,507
Transfers to Investment Reserves	353	313	272	945	1,194	982	442
Assets Written Down	164	263	304	347	198	329	-
Loss on Sale - Securities & Real Estate	-	-	-	-	-	-	47
	11,069	12,881	11,818	8,159	8,245	11,187	9,637
Profit before Income Tax	5,873	N. A.	N. A.	N. A.	N. A.	N. A.	N. A.
Income Tax	2,613	N. A.	N. A.	N. A.	N. A.	N. A.	N. A.
Profit after Income Tax	3,260	2,749	2,699	2,252	2,151	2,899	5,335

Appendix 8

Loan Companies in Mortgage Field

1. The relation of the gross mortgage loan approval granted by the loan companies is exemplified by the experience of those companies who are members of the Association.

($ Million)	A Total Approvals	B Loan Company Approvals	Percentage B to A	C Approvals less Government	Percentage B to C
1960	1,201	167	13.9	1,033	16.2
1959	1,450	117	8.1	1,083	10.8
1958	1,581	133	8.4	1,191	11.2
1957	1,006	76	7.6	770	9.9
1956	1,018	84	8.3	998	8.4
1955	1,213	91	7.5	1,195	7.6
1954	931	76	8.2	886	8.6
1953	639	56	8.8	581	9.6
1952	551	55	10.0	503	10.9
1951	447	43	9.6	435	9.9
1950	548	53	9.7	523	10.1
1949	433	46	10.6	394	11.7
Total	11,018	997	9.0	9,592	10.4

A. Approvals by life, loan, trust and other lenders including banks, savings banks, certain investment companies and Central Mortgage and Housing Corporation. Source CMHC includes conventional and National Housing approvals.

B. Loan company members of The Dominion Mortgage and Investments Association.

C. Same as A less Central Mortgage and Housing Corporation.

2. Central Mortgage and Housing Corporation has endeavoured to estimate as closely as possible the amount of mortgage debt (exclusive of bond mortgages) outstanding in Canada. It is felt that there is a considerable margin of error in the result obtained for holdings of "individuals" as opposed to corporate holders and so the study has not been published as yet. While the estimate of holdings by such lenders as insurance, loan and trust companies, banks, savings banks, and certain investment companies may be open to question in that

all such lenders are not included, it is believed that the estimate is reasonably comprehensive and accurate. Accordingly, the following tabulation will be of interest as to the position occupied by loan companies in the mortgage field. It should be noted that, in the following tabulation, ordinarily regarded as "loan" companies.

Mortgage Loans Outstanding Held
by Banks and Certain Other Lending Institutions

($Million)	Total	By Loan Companies	Per Cent
1960	5,643	495	8.8
1959	5,242	435	8.3
1858	4,657	392	8.4
1957	4,112	358	8.7
1956	3,723	342	9.2
1955	3,025	309	10.2
1951	1,520	216	14.2
1947	725	141	19.4
1937	683	160	23.4
1929	745	186	25.0
1928	693	184	26.6
1927	620	178	28.7
1926	552	165	29.9

Total includes life, loan and trust companies, chartered banks, savings banks, investment companies and certain investment institutions. Source - University of Western Ontario, School of Business Administration. This is a larger sample than the Association membership of loan companies which at the end of 1960 held mortgages ~~of~~ $471 million compared

Experience of One Nationally Operating Company on Mortgage Interest Rates

Year	1. New Business Accepted	2. Renewed During the Year	1.+2. Accepted and Renewed
	%	%	%
1917	7.64	7.54	7.60
1918	7.76	7.57	7.70
1919	7.51	7.53	7.51
1920	8.07	7.83	7.89
1921	8.35	8.17	8.29
1922	8.07	8.09	8.07
1923	7.72	8.06	7.79
1924	7.54	7.66	7.58
1925	7.15	7.51	7.25
1926	6.99	7.57	7.10
1927	6.88	7.30	6.94
1928	7.08	7.06	7.08
1929	7.10	7.04	7.14
1930	6.99	7.05	7.01
1931	6.84	6.90	6.87
1932	6.60	7.04	7.01
1933	6.84	7.79	6.80
1934	6.43	6.90	6.79
1935	6.05	6.16	6.13
1936	5.80	5.84	5.83
1937	5.75	5.82	5.81
1938	5.87	5.68	5.76
1939	6.01	5.45	5.66

Year	1. New Business Accepted	2. Renewed During the Year	1.+2. Accepted and Renewed
	%	%	%
1940	5.90	5.52	5.63
1941	5.85	5.45	5.55
1942	5.76	5.39	5.48
1943	5.61	5.26	5.36
1944	5.33	5.33	5.33
1945	5.27	5.23	5.25
1946	5.28	5.08	5.21
1947	5.32	5.13	5.24
1948	5.42	5.18	5.35
1949	5.63	5.24	5.54
1950	5.64	5.40	5.58
1951	5.89	5.67	5.84
1952	6.40	6.08	6.32
1953	6.64	6.33	6.57
1954	6.71	6.60	6.69
1955	6.54	6.46	6.52
1956	6.71	6.62	6.69
1957	7.47	7.25	7.42
1958	7.27	7.12	7.23
1959	7.39	7.36	7.38
1960	7.82	7.70	7.80
1961	7.48	7.51	7.48

SUBMISSION TO
THE ROYAL COMMISSION ON BANKING AND FINANCE
BY
THE NATIONAL HOUSE BUILDERS ASSOCIATION

TABLE OF CONTENTS

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SECTION 1

INTRODUCTION

1.1 The National House Builders Association is a non-profit organization consisting of 48 affiliated local house builders associations (1) and individual members who subscribe to the NHBA Code of Ethics and adhere to its objectives (2). This Association represents the entire housing industry through its membership of over 3,000 home builders, building contractors and sub-contractors, material suppliers, mortgage lenders, realtors, achitects and building material manufacturers.

1.2 NHBA was incorporated under a Federal charter on February 8th, 1943. Its administrative office is located in Office Suite 27 of the King Edward Sheraton Hotel, 37 King Street East, Toronto, Ontario.

1.3 NHBA is particularly interested in the opportunity afforded it to present its views to the Royal Commission on Banking and Finance. This Association first recommended the establishment of a Royal Commission to investigate the

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(1) List of NHBA Affiliated Associations appears as Appendix "A".

(2) NHBA Code of Ethics and Objectives appear as Appendix "B".

financing of dwelling construction in Canada, to the Minister of Public Works on May 19, 1960. It again submitted this request to the Prime Minister's Conference on Employment on October 24, 1960 and again most recently to the Minister of Public Works on February 22, 1961.

1.4 While our proposal did not meet with the Minister's approval, the decision of the Government a short time later to appoint the Royal Commission on Banking and Finance has provided for a much broader investigation which will certainly include the financing of housing as one of its important segments. We therefore are pleased to submit herewith our comments and recommendations.

financing of dwelling construction in Canada to the Minister of Public Works on May 19, 1960. It again submitted this request to the Prime Minister's Conference on Unemployment on October 24, 1960 and again most recently to the Minister of Public Works on January 31, 1961.

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SECTION 2

SUMMARY OF VIEWS AND RECOMMENDATIONS

2.1 It has been established that housing is an important industry in Canada. It is not only important as an industry which employs hundreds of thousands of workers in every community in the country, but it is also important since it serves a vital social function through the building of homes for our people. (Paras. 3.16-3.18)

2.2 The Federal Government has recognized the housing industry as an important one by the series of Housing Acts which it has enacted. It has attempted to encourage and promote residential mortgage investment,the life-blood of housing, even to the extent of appropriating large sums of public money for this purpose, when private sources failed to meet the demand. (Paras.4.1-4.3)

2.3 There is not an adequate base of private funds available for the residential construction industry in Canada and as a consequence it has been subjected to periodic shortages which have had a disrupting effect upon its efficiency, upon employment and upon the price which must be charged for the end product. None of the measures taken so far have accomplished the aim of providing enough mortgage money at the right time, from all the possible sources. It is hoped that the Royal Commission on Banking and Finance will make recommendations aimed at overcoming the obstacles

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which have hitherto existed. (Paras. 4.28-4.38)

2.4 About $975 million is required annually in Canada, over and above the amount being repaid every year on outstanding mortgages, to finance the present extent of dwelling construction. This is new money each year which must flow into housing. When viewed in comparison with the current annual rate of personal savings of Canadians, it would appear that the private sector of the economy could provide the necessary amount. (Para. 3.12)

2.5 Various authorities seem to believe that the industry's financial requirements will continue at about the present level, at least until about 1980. The building of homes and other structures associated with them has created the largest manufacturing business in Canada. It is a local industry employing for the most part local people and Canadian materials. It is an industry providing in excess of 4000,000 on-site jobs alone, to say nothing of the thousands of jobs created to produce the raw materials, transport, manufacture and eventually deliver them to the jobsites. (Paras.3.13-3.18)

2.6 Expenditure for new housing, for repairs and for maintenance averages about $2 billion annually in Canada. The residential construction industry was responsible for 17.4% of the capital investment in the economy during 1961 - 4% of the Gross National Product. 85.4% of the cost of this new housing was financed by mortgages in

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1961, an indication of the importance of this type of financing to this industry.
(Paras. 3.1-3.4)

2.7 It is estimated that well over three-quarters of all residential mortages went to so-called "merchant builders" who were either building for sale or for rent. The approved lending institutions last year issued 90% of their National Housing Act insured loans to builders and only 10% to home-owner applicants. This is an illustration of the fact that builders and not owners, initiated most of the residential construction.
(Paras. 3.5-3.7)

2.8 At the present time, prospective home purchasers need the maximum mortgage obtainable and builders attempt to secure the largest loan they can, when building for sale, in order to offer the lowest down-payment possible. Many potential customers find little difficulty meeting the monthly carrying charges of a large mortgage, but almost all of them have difficulty procuring the down payment needed. In 1961, under the National Housing Act, the average down payment was $2,475. or 17.1% of the cost of the average house.
(Paras. 3.9-3.11)

2.9 The original objectives of the National Housing Act, 1954 were to broaden the supply of mortgage money by making that form of investment more attractive, increasing the number of lenders and making more money available for mortgage lending. The National House Builders Association believes that the objectives of the National

1951, an indication of the importance of this type of financing to this locality.
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Housing Act were realized only for a very short time after its passage. Means should now be found to make it capable of fulfilling its intended function. (Paras. 4.1-4.2)

2.10 The NHA, 1954 brought the chartered banks into the mortgage field for the first time. The banks loaned heavily for a few years but now have withdrawn again and their enormous accumulation of personal savings is unavailable for mortgages. There are three chief reasons for their withdrawal: The first is the Bank Act which prevents them from investing in loans at more than 6% interest, whereas the current NHA interest rate is set at 6.1/2%; the second is that banks from their experience feel the NHA mortgages are not really 100% insured; and the third is that mortgages do not represent a readily disposable asset.

2.11 The chartered banks, during their active mortgage days, proved to be a versatile outlet for loans. With their extensive branch banking system, even the smallest community had ready access to a mortgage office. (Paras. 4.47-4.48)

2.12 NHBA is of the opinion that the Bank Act should be amended to permit the chartered banks to make insured NHA mortgage loans at the prevailing NHA interest rate, whatever it may be. Failing their active re-entry into mortgage lending, it is our recommendation that new

[illegible]

[illegible]

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<u>NHBA is of the opinion that the Bank Act should be amended to permit the chartered banks to make insured NHA mortgage loans at the going lending interest rate, and to resume [illegible] making their active [illegible] in mortgage</u>

[illegible]

financial institutions such as the Building Societies of Great Britain and the Savings and Loan Associations of the United States be permitted to be established.

Ultimately, we believe, a proportion of personal savings would find its way into these new institutions which traditionally lend heavily in mortgages. It is unfair to this industry and to the Canadian public to be deprived of the use of the personal savings held by the banks but presently barred from mortgage investment.

(Paras. 4.39-4.43)

2.13 The Federal Government entered the mortgage scene in a substantial way in 1957 by issuing direct loans through Central Mortgage and Housing Corporation. This action was occasioned by failure of the private lenders to supply a sufficient quantity of money. The Government has continued to follow this practice ever since, not always however, pacing its amount of lending to the needs of the market. This has had a disrupting effect on the housing market by virtue of the unpredictable flow of funds from CMHC.

(Paras. 4.4-4.25)

2.14 The direct loans made by the Government have on occasion, been aimed more at overcoming the unemployment problem or reducing its borrowing, than in following the normal requirements for housing. The violent fluctuations thus created in the supply of mortgage funds have had a

damaging and disrupting influence on the industry which at one moment was over-stimulated and at the next deprived of the financing needed to sustain an even flow of production. (Paras.4.20 - 4.22)

2.15 There is ample evidence of the fact that an inadequate base of private mortgage funds exists. It was never intended that the Government be anything but a residual lender. The amount by which it has found it necessary to contribute in direct NHA loans through CMHC is approximately the amount by which the base has heretofore been too narrow. (Paras. 4.28-4.38)

2.16 NHBA recommends that a broader base of mortgage funds from private sources, rather than from public sources, be established, which would react to normal economic laws of supply and demand and that the Government gradually withdraw from direct lending and confine itself to the insuring of mortgages - lending only in areas where approved lenders are not active or not meeting the local demand. (Paras. 4.23-4.27)

2.17 Because there are many owners of existing houses who are now confined to accommodation which is unsuited to their present needs, but yet who are prevented from disposing of them because of insufficient mortgage financing, NHBA recommends that the terms of the National Housing Act be expanded to include the insuring of mortgages on existing houses, in the same manner and to the same extent as mortgages are

presently insured on new houses under the Act. Such a measure would, in all probability, call for additional mortgage funds, thus making the existing base of private funds still more inadequate than it has been to date. It is our opinion that an additional demand for new housing would also accompany the extension of NHA lending to older homes. (Paras. 4.50-4.61)

2.18 Mortgage financing under our National Housing Act is forcing prospective homeowners into the suburbs as opposed to the existing built-up sections of our cities, because it applies exclusively to new housing. Home purchasers wishing to purchase existing dwellings are obliged to rely on conventional mortgages often supplemented by second mortgages at exorbitant rates of interest.
(Paras. 4.52-.455)

2.19 The refinancing of existing houses under NHA would establish an active trade-in market which does not exist today. Our market is stagnant because of the inability to move the existing houses into the hands of persons willing to occupy them. (Paras. 4.56-4.57)

2.20 The Federal Housing Administration in the United States has had such a program ever since 1934. The FHA Commissioner has stated that he does not see how an active market could exist without it since the majority of new home purchasers come from the group which already own

presently insured on new houses under the Act. Such a measure would, in all probability, call for additional mortgage funds, thus making the existing base of private funds still more inadequate than it has been to date. It is our opinion that an additional demand for new housing would also accompany the extension of NHA lending to older homes. (Paras. 4.50-4.61)

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homes. Last year almost two-thirds of all FHA insured loans were on existing houses.

(Paras. 4.58-4.60)

2.21 Some controls would undoubtedly be needed to prevent funds from a new mortgage on an existing dwelling being used by the owner for some purpose other than the purchase of a new home but these would be relatively simple to incorporate in the regulations.

(Paras. 4.61-4.63)

2.22 The effect on the present lending institutions would be to bring many more of them in as NHA approved lenders since conventional loans would be less attractive. There would be a beneficial effect by the virtual elimination of the usurious second mortgage business. (Paras. 4.64-4.69)

2.23 One factor exerting a profound influence on the availability of mortgage funds, particularly from the private sector of lenders, has been the NHA controlled interest rate. It is frequently out of line with other interest rates and hence causes the lenders to shift their investments away from NHA mortgages. The rate is set by the Government in relation to 20-year bonds to which there appears little if any connection. NHBA advocates that the NHA interest rate be freed to find its own level, as conventional mortgage rates do, just as soon as the base of residential mortgage funds becomes sufficiently broad. In the meantime the NHA interest rate

should be adjusted with sufficient frequency and kept sufficiently high to encourage mortgage lending. (Paras. 4.70-4.82)

2.24 NHA mortgages up to now have not had a high degree of marketability and this has made certain investors reluctant to buy them. It has also meant that the approved lenders did not have a ready market for selling their holdings and eventually reached the point where they held just about all the mortgages they could afford. Only by increasing their assets and by the repayments on their holdings, could they continue to acquire additional NHA mortgages.

(Paras. 4.83-4.84)

2.25 Pension Funds, for instance, could be large purchasers of this type of mortgage which is Government guaranteed. At the present time there are only 8% of their assets invested in mortgages. Investors of this type do not have facilities for servicing mortgages and hence would be more interested in buying the securities of a company which had as its assets, insured NHA mortgages. Such companies are coming into existence and every encouragement should be given to them.

(Paras. 4.85-4.87)

2.26 Central Mortgage and Housing Corporation has conducted several sales of its mortgage holdings to make investment in this sort of security better known to the available investors. This

is creating a secondary mortgage market aimed at providing a means of disposing of NHA insured mortgages by present holders of them. This will enable them to re-invest in new NHA mortgages and in effect a broader group of persons will have made its money available for mortgages. So far, however, none of these measure has increased the supply of mortgage funds to the required degree.

(Paras. 4.90-4.92)

2.27 NHBA recommends that the Secondary Mortgage Market be given added emphasis and that the present restrictions which have curtailed the activity in this field, be removed. (Para. 4.92)

2.28 The statutory limit of 66.2/3% of the value of the property, which is the maximum conventional mortgage allowed should be either raised or eliminated in favour of the British system of letting the companies themselves judge the degree of risk involved, based on the other factors affecting the loans, and then to advance the appropriate percentage of the value. Conventional mortgages, being limited in their amount, have bred the second mortgage and all of its ills of high interest, short terms and substantial bonuses. These would practically disappear if the first mortgage could be made for a greater amount. In reality the position of the first mortgagee would be improved by eliminating the heavy charges to the mortgagor of the second mortgage.

(Paras. 5.1-5.8)

2.29 NHBA recommends easing of the present restrictions on conventional mortgage companies in order to permit them to use more individual discretion in the amount of loan they can make. If it is felt inexpedient to lift the ceiling entirely, we would strongly suggest the raising of the upper limit on conventional mortgages from 66.2/3% to at least 80% of the value of the property. (Para. 5.9)

2.30 We predict an increasing emphasis on urban renewal projects, on rehabilitation of run-down areas, of conservation of less decrepit houses and of home improvements. All of these will require large amounts of financing, sometimes of a new and different type. Already we can see the shortcomings of the available home improvement loans under NHA. NHBA advocates that the present limit on NHA Home Improvement Loans be increased from $4,000.00 to $8,000.00, that the repayment term be extended to 20 years, and the banks be permitted to charge the prevailing NHA interest rate. (Paras. 6.7-6.10)

SECTION 3

SOURCES OF FUNDS FOR HOUSING

Magnitude of Financing for the Housing Industry

3.1 Expenditures on new housing construction in Canada in 1961 totalled $1,467 million. These expenditures, which do not include many of the service facilities occasioned by new housing - including schools, shopping centres, sewer, water and other municipal improvements - represented 17.4% of capital investment in the economy during the year - 4% of the Gross National Product (1). Expenditures had reached a peak in 1958 of $1,782 million.

TABLE 1

RESIDENTIAL CONSTRUCTION EXPENDITURES, PUBLIC (2) AND PRIVATE

(Millions of Dollars)

Period	Total New Construction	Repair and Maintenance	Total all Residential Construction
1956	1,547	355	1,902
1957	1,430	383	1,813
1958	1,782	407	2,189
1959	1,752	431	2,183
1960	1,456	457	1,913
1961	1,467	484	1,951
Average 6 years	1,572	420	1,992

Table 1 shows the residential construction expenditures, both public and private, which have been made during the past six years. The annual average for this period has been $1,572

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(1) CMHC Annual Report - 1961, Page 6.

(2) Includes Crown Companies and non-departmental agencies CMHC "Canadian Housing Statistics - 1961" - Table 18.

[illegible]

[illegible]

Magnitude of Financing in the Housing Industry

3.1 Expenditures on new housing construction in [illegible] were [illegible]. These expenditures, which do not include many of the service facilities occasioned by new housing - including schools, shopping centres, sewer, water and other municipal improvements - represented 17.4% of capital investment in the economy during the year - 4% of the Gross National Product (1) Expenditures had reached a peak in 1959 of $1,752 million.

TABLE 1

RESIDENTIAL CONSTRUCTION EXPENDITURES, PUBLIC AND PRIVATE

(Millions of Dollars)

Period	Total New Construction	Repair and Maintenance	Total all Residential
1956	1,547	235	1,782
[illegible]	[illegible]	[illegible]	[illegible]
1958	1,715	447	2,159
1959	1,752	411	2,163
[illegible]	[illegible]	[illegible]	[illegible]
1961	[illegible]	[illegible]	[illegible]
Average 5 years	1,376	460	1,9?2

Table 1 shows the residential construction expenditures, both public and private, which have been made during the past six years. The annual average for this period has been $1,37?

(1) CMHC Annual Report - 19.., Page 5

(2) Includes Crown corporations and non-departmental [illegible]

[illegible]

million for new construction. In addition to the foregoing, there has been expended a sum for repair and maintenance of residential buildings which averaged $420 million over the previous six year period, making a total average expenditure for all residential construction of $1,992 million. It may be concluded therefore that the residential construction industry in Canada has reached approximately the $2 billion a year figure.

During 1961, to finance the total new housing, mortgage and other financing amounting to $1,253 million (1) was made available. This represented 84.4% of the total cost of new construction, leaving a balance of $231.9 million or 15.6% to be financed by equities of builders and owners in addition to the above mortgages.

3.4 Plus lending $786 million (2) for new residential construction in 1961, the lending institutions also made loans amounting to $300 million (2) on existing residential property. This made their total contribution in the residential field $1,085 million (2).

Magnitude and Form of Funds Needed by Builders

3.5 It is difficult to obtain the exact proportion of mortgage funds needed by builders to conduct their operations because of several

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	Table
(1) CMHC "Canadian Housing Statistics - 1961"	34.
(2) CMHC "Canadian Housing Statistics - 1961"	20.

factors. Where builders sell to home purchasers in advance of the commencement of construction, it is frequently the practice to make the mortgage application in the home owner's name rather than that of the builder. Consequently the published figures may indicate a disproportionate share of loans for home owners.

3.6 Figures which are at hand for loans made under the National Housing Act indicate that of the total mortgage loans of $703 million (3) made in 1961, $502 million (3) or 71.5% went to builders who were either building houses for sale or for rental purposes. In the case of approved lenders making N.H.A. loans in 1961 the percentage was even higher. Of $394 million (3) loaned, 90% went to builders. As mentioned, the actual percentage was probably more than this.

3.7 Figures showing the comparative conventional mortgage loans to builders and home owners are not at hand.

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(3) CMHC "Canadian Housing Statistics - 1961" Table 26.

Magnitude and Form of Funds Needed by Home Purchasers

3.8 The financing shown as applicable to home purchasers in the statistics available, applies only to those cases where the home owner has been the applicant for the mortgage. In many cases the home owner assumes the mortgage which is taken out by the builder. In either case

factors. Where builders sell to home purchasers in advance of the commencement of construction, it is frequently the practice to make the mortgage application in the home owner's name rather than that of the builder. Consequently the published figures may indicate a disproportionate share of loans for home owners.

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3.7 Figures showing the comparative conventional mortgage loans to builders and home owners are not at hand.

(3) CMHC "Canadian Housing Statistics - 1961" Table 26.

Magnitude and Form of Funds Needed by Home

The financing shown as applicable to home purchasers in the statistics available, applies only to those cases where the home owner has been the applicant for the mortgage. In many cases the home owner assumes the mortgage which

the mortgage is for the eventual use of the home owner and the figures merely indicate who the original applicant was. In 1961 of the $703 million (1) loaned under the National Housing Act, $201 million (1) or 28.5% was in the name of owner applicants.

Purpose for Housing Funds

3.9 There are two principal purposes for housing funds, the first is for the provision of mortgages and the second is for the provision of the builder's or owner's equity.

3.10 When builders construct houses for sale, they universally apply for the largest first mortgage obtainable. Upon resale to a home purchaser they are then in a position to offer the lowest down payment - a necessary ingredient in today's competitive housing market. If the home purchaser turns out to require less mortgage and is in a position to make a greater down payment, it is a simple matter to reduce the mortgage at the time of resale. On the other hand, if the largest first mortgage is not obtained initially, it is virtually impossible to refinance the house with a greater mortgage after it has been constructed.

3.11 When a prospective home owner applies for a mortgage, the amount required is dependent on the owner's available equity. In 1961 under

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(1) CMHC "Canadian Housing Statistics - 1961" Table 26.

the National Housing Act the average down payment was $2,475.00 per single family dwelling unit or 17.1% of the cost. The balance of 82.9% was financed by mortgage. This serves to illustrate the extreme importance of mortgage financing to the housing industry.

Rates of Return

3.12 The requirement of funds for mortgage lending is large as indicated above and reached a total of about $1,553 million in 1961. Figures shown would indicate that annual repayments to lending institutions on outstanding mortgages were $478 million (1) in 1960. Figures given in the Annual Report of Central Mortgage and Housing Corporation for the year 1961 indicate that annual repayments on Government loans may be estimated at at least $100 million. This means that the annual requirement for new money for mortgage lending purposes is now at the rate of approximately $975 million. While large, this requirement does not theoretically appear beyond the capacity of the private sector of the economy to finance, providing the rate of return on mortgages is kept competitive with other users of long-term credit, and provided mortgages become a more fluid asset.

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(1) CMHC "Canadian Housing Statistics - 1961" Table 48

Future Requirements for Housing Funds

3.13 Present rates of population increase and

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(1) [illegible]

[illegible]

3.13 Present rates of acquisition increase and

expected family formations would indicate a steady rise in the number of new dwelling units required. The increase in the average life span and the financial ability of older persons to maintain their own homes constantly increases. The Minister of Public Works recently stated that "millions of Canadians today live in substandard conditions" (2). On another occasion he said that it was anticipated that by 1980 there will be twice as many people living in urban areas as there are today (3).

3.14 The Royal Commission on Canada's Economic Prospects estimated that a minimum of $45 to $50 billion (1) would be spent on new housing in the 25 year period ending in 1980. This is an average of $1,800 to $2,000 million per year. The Commissioners in their report stated "We would not be surprised if housing and social capital expenditure as a proportion of Gross National Expenditure turned out to be higher than our forecast appears to indicate." These and other trends would indicate a continuing high level of residential building.

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(2) Remarks by The Hon. David J. Walker, to the Annual Conference of Mayors & Municipalities - Halifax, June 1, 1961.

(3) Remarks by the Hon. David J. Walker, to the Eastern Mortgage Conference, Mortgage Bankers Association of America, Montreal, May 18, 1961.

(1) Royal Commission on Canada's Economic Prospects - 1957, Page 307.

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3.15 The Commissioner of the Federal Housing Administration in the United States has said, "There will be a 40% increase in the 20-29 age group and a 20% in the 70 plus age group in the 1960's. This represents a complete shift in our nation's population structure, a shift that creates a huge demand for housing in the low-cost areas and in the areas of special need." (2) A similar situation prevails in Canada and the Commissioner's remarks apply equally here.

Social and Economic Importance of the Housing Industry

3.16 The building of homes - and the schools, churches and commercial buildings that serve them - is one of the largest manufacturing businesses in Canada. It employs more people and adds more dollar value to the finished product than any other manufacturing industry. Unlike our other great industries, building is not concentrated in a few cities but is important in every community. In many areas it is the most important local industry, and in many residential communities it is the only industry of any consequence.

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3.17 More than half of every dollar spent in the light construction industry remains in the community in which the building takes place. For example, in a typical new house, .55¢ out of every construction dollar goes to local labour on the jobsite (1). Most materials are purchased locally and many are manufactured in or near where the building is constructed. With minor exceptions the materials used in home building in Canada are of Canadian origin.

3.18 In terms of total employment and what this means to the economy of the country, it has been estimated by the Government that this industry provides 600,000 (2) man year jobs directly and indirectly. There are also by Government figures, over 400,000 (3) jobs provided in on-site construction alone. Then, in addition, there are all the jobs more remotely involved in the construction of housing units of various kinds. For example, there is the underground servicing of the land, the production, handling and transportation of building materials. There are as well, the men employed in getting out the logs, lumbering, the making of furniture and the equipment which goes into a home. Housing is truly a giant employer of labour and its rises and falls affect our total national employment picture to a very considerable degree.

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(1) "Building is a Local Business" - Practical Builder Jan. 1962

(2) Hansard, Page 684, February 4th, 1959.

(3) Parliament Speaks on Housing - Volume V, No. 61, Page 3, May 3rd. 1960.

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SECTION 4

MORTGAGE FINANCE UNDER THE NATIONAL HOUSING ACT

The National Housing Act, 1954

4.1 Federal Housing Legislation in Canada originated with the first Dominion Housing Act which was passed in 1935. It established a system of joint lending under which the Federal Government supplied approximately one-quarter of the loan and the lending institutions the balance. This form of public and private partnership in mortgages was retained in the National Housing Acts of 1938 and 1944 with only minor modifications.

4.2 It was the National Housing Act, 1954 however, which introduced the legislation under which we operate today, subject of course to subsequent important amendments. At the time that the Act was presented to Parliament the Minister stated "The main object of the legislation is to broaden the supply of mortgage money by making that form of investment more attractive, increasing the number of lenders and making more money available for mortgage lending." He further stated, "It is quite clear that if there is to be an increase in private lending, additional funds must come from somewhere other than present sources of institutional mortgage funds."

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was to stimulate private lending on NHA mortgages to the point where the bulk of such funds would be privately supplied.

4.4. The 1954 Act did two things: It brought the chartered banks into the residential mortgage market for the first time and it introduced a system of mortgage insurance similar to that in the United States. Before this, Canadian banks - unlike banks in the United States - had been unable to participate in mortgage lending.

4.5 The objective of the National Housing Act, 1954 was attained for only a very short period after the inception of the Act. The objective of the Act is still valid, in the opinion of this Association, and means should be found to make it capable of fulfilling its intended function.

Recent History of NHA Financing

4.6 Attached to this Brief as Appendix "C" is a log of important changes which have occurred in the National Housing Act, the regulations under the Act, or the announced policies governing its administration, since the National Housing Act, 1954 went into effect. Appendix "D" shows important housing data in chart form covering the period 1951 to 1961.

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In the years 1954 and 1955 private lenders supplied sufficient funds for an ascending rate

of housing starts reaching 138,000 in 1955. In 1956, however, there was a substantial drop in the number of NHA loans, with a corresponding but lesser drop in the total number of housing starts. This was in spite of the fact that the ceiling on interest rates under NHA was increased as of March 1956 from 5.1/4 to 5.1/2%.

4.8 This was the period when the banks were beginning to find it difficult to meet the demand upon them for loans. In January 1957 the ceiling on interest rates was raised to 6% and considerable pressure was put on the banks to commit themselves for at least $150 million of new NHA mortgages in 1957. In spite of these measures, however, the rate of lending on NHA mortgages by private lenders was considered inadequate, and in September of that year CMHC made available $150 million for lending on low-cost houses. This resulted in over 25,000 direct loans by CMHC in 1957, which was ten times that of the previous year.

4.9 In December 1957, regulations were changed to lower down payments on NHA mortgages and the availability of another $150 million for low-cost homes was announced. Result of these measures was that in 1958 the number of housing starts broke all records by reaching nearly 165,000, of which almost 82,000 were NHA starts, and of these nearly 39,000 were financed by CMHC.

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It is interesting to note that if CMHC direct loans had been at the pre-1957 rate of approximately 3,000 per year the total number of housing starts in 1958 would still have been approximately 128,000, which would have been a 5% increase over 1957 and a slight increase over 1956.

4.10 During the latter part of 1958 no further special measures were taken to stimulate house building, except that in September additional quotas were given to builders in connection with the direct loans for low-cost houses.

4.11 In the early part of 1959 builders were working on the low-cost house program which had been authorized late in 1958. When the funds for this program approached exhaustion an additional $250 million was made available on September 1st. As a result, 1959 showed 149,000 starts of which 62,000 were financed under NHA and of these 34,000 were direct CMHC loans.

4.12 In December 1959 the maximum interest rate under NHA was raised to 6.3/4%. Even at this rate, yields on other forms of investment were so good in the early part of 1960 that private lending institutions found NHA mortgages non-competitive. The chartered banks had an additional reason for not lending on NHA mortgages as they considered the Bank Act prevented them from charging more than 6% on such loans regardless

of the ceiling being 6.3/4%. The rate of approval on new NHA loans was therefore very low throughout the early part of 1960, and at this time the Government chose to further contract house building by greatly limiting the funds available for direct lending. Not only were the amounts limited but income restrictions were attached and merchant builders were made ineligible for direct loans.

4.13 Despite the fact that NHA mortgages at 6.3/4% eventually became attractive to the private lenders, other than chartered banks, during the latter part of 1960, the total number of NHA starts in that year was only approximately 35,000 and the total starts were only 108,878. Toward the end of the year, the number of unsold houses in some areas increased, leading to the conclusion by some observers that lack of demand was becoming an important influencing factor on rate of housing starts. However, there are many within the housing industry who are not convinced that this conclusion was entirely valid.

4.14 Late in 1960 the Housing Act was liberalized to a considerable degree by raising the maximum loan, extending the term, increasing the percentage of loan and withdrawing all income ceilings. As a result 59,186 starts or 47.1% of the total 125,577 housing units built in 1961 were financed

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Fluctuations of NHA Lending

4.15 The principal difficulties of the house building industry since 1954 have arisen from the wide year to year fluctuations in the number of houses started. From a total of 113,500 in 1954 the industry attained a peak of 164,600 in 1958, followed by a contraction of almost 35% in two years to less than 109,000 in 1960. Such fluctuations tax the resources of the industry and attract marginal operators at the peak, and cause unemployment and bankruptcies in the subsequent contraction. The overall result is poor efficiency, unnecessarily high costs and serious economic disruption.

4.16 Appendix "D" is a chart of dwelling starts divided between NHA starts and others for the period 1951 to 1961. The outstanding feature of this chart is the extreme variation which occurred in the number of dwelling starts following the effective date of the National Housing Act, 1954, but particularly in the years 1957 to 1960 inclusive. It should be noted that the rate of conventional mortgage starts was quite stable in this period, with practically all of the variation occurring in the NHA starts.

4.17 Reference to Appendix "D" reveals that the period of widest fluctuation in dwelling starts

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<u>Fluctuations of NHA Lending</u>

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was also the period in which CMHC direct loans were an important part of the total and were showing similar wide swings. The 1958 peak occurred simultaneously with a fair rate of lending by chartered banks and other private lenders and a record rate of lending by CMHC. The period of deflation of 1960 was accompanied by extreme contraction of chartered banks and CMHC loans, only slightly offset by some increase in loans by other approved lenders.

4.18 As mentioned previously, there was a belief in some quarters that the low rate of housing starts in 1960 was due to slackening of demand rather than non-availability of funds. The Association does not regard this contention as being proven. With CMHC loans not available to builders in the early part of that year, with the chartered banks in effect making no mortgage loans and with the other private lenders attracted away from mortgage loans by the better return on other investments, it was impossible for merchant builders to plan or organize their operations for the year 1960. The fluctuation was the result of varying availability of NHA mortgage funds rather than demands of the market.

4.19 The fact that demand continued good is borne out by the rate of conventional starts which were off only moderately from 1959 and still represented approximately 75,000 starts. Furthermore, as soon

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The fact that demand continues good is borne out by the rate of conventional starts which were off only moderately from 1959 and still represented approximately 75,000 starts. Furthermore, as soon

as the private lenders, other than chartered banks, began to be attracted by NHA mortgages in the latter part of the year they had no difficulty in substantially increasing their rate of lending. It is probable that the demand for dwellings is flexible to some extent and that given a high rate of national income such as we have been enjoying, the demand can be expanded somewhat by using good selling methods to move well designed houses offered at reasonable prices and on favourable terms. Presumably CMHC recognized this probability in establishing its more liberal financing and repayment terms in December 1960.

4.20 It seems clear that CMHC re-entered the direct lending field on a large scale in 1957 because in spite of the hopes expressed for the National Housing Act, 1954, private sources were then failing to provide sufficient capital to support a house building program which would satisfy the housing needs of the country and contribute its reasonable share towards relief of unemployment. In any event, the move was successful and the trend was reversed. Why CMHC then continued to a record rate of lending in 1958 when the approved lenders were making substantial amounts of funds available is not so clear. Certainly the resulting peak of house building was not of benefit to the country in any respect except perhaps, that of short term

as for being a 'palace', other than mortgaged
bank, began to be entered by the mortgagee in the latter part of the year and had difficulty in obtaining fully increasing their rate of lending. It is probable that the demand for dwellings is likely to continue and that given a high rate of national income such as we have been enjoying, the demand can be extended somewhat by using good selling methods to move well designed houses offered at reasonable prices and on favourable terms. [illegible] is established on the more liberal % [illegible] of repayment terms in December 1934.

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unemployment relief. The house building industry, called upon to expand at such a rate, could not possibly be efficient. New and inexperienced operators went into business, untrained or partly trained workers were employed, land development and provision of services could not be as orderly as it should have been. If there was a failure of demand in 1960 it may have been due, in part at least, to the overstimulated building of low-cost homes in 1958.

4.21 The momentum of the 1958 program carried over into 1959, so that even though all lenders were making fewer loans there was still a high rate of activity in house building. In 1960, however, with the rate of lending by other lenders declining preciptately in the early part of the year, CMHC accentuated the trend by limiting the total amount available for direct loans, by refusing to make loans to builders and by surrounding older loans with tight restrictions.

4.22 Presumably the need to supply adequate housing and to provide employment in house building had yielded priority to other considerations, such as, perhaps, a reduction in Government borrowing. There is, of course, nothing wrong with a move toward economy, however, sudden curtailment of one of the principal sources of NHA funds, that is CMHC, caused or contributed to a situation where the housing

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industry was deflated by more than one-third in a period of only two years. It is obvious that no industry can be efficient or attractive for the entrepreneur or worker under such circumstances. The housing industry has been publicly applauded for having held the cost of construction relatively constant over the last few years. Certainly a much better job could have been done if the violent fluctuations could have been avoided.

4.23 It seems to the Association that the difficulties of this industry start with the fact that the National Housing Act, 1954, failed to "broaden the supply of mortgage money by making that form of investment more attractive, increasing the number of lenders and making more money available for mortgage lending." When CMHC attempts to remedy that failure by direct lending, two important disadvantages emerge:

4.24 The control of the rate of the activity ceases to be subject to economic laws and becomes arbitrary; to keep the rate stable requires a degree of wisdom, judgment and foresight which it is perhaps unreasonable to expect. The control of the rate of activity inevitably becomes subject to political considerations, which may have no relation whatever to the housing requirements of the country, the creation of steady employment, or the need for efficiency in the house building industry.

4.25 The Government raises the funds which it loans on direct mortgages, by borrowing from the private sector of the economy through the sale of Government bonds. The Government is thus really just an intermediary, rather than a true source of funds, in its direct mortgage lending. If direct Government lending were reduced or terminated, the Government could reduce its bond selling by an equal amount. Thus, while the flow of mortgage funds in the form of direct loans would tend to dry up, private sources would have a corresponding amount of money available for mortgage investment. The total demand for funds from the private sector would not be increased at all.

4.26 The Association, therefore, feels that it is extremely important that the whole matter of financing residential construction should be revised with the hope that ways and means may be found ultimately to supply funds almost entirely from private sources, with the Government restricting itself to the insuring of mortgages, the establishment of rules and regulations and a minimum amount of direct lending in areas where approved lending facilities are not available, or not adequate to meet the local demand.

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supplies of funds ebb and flow in response to ordinary economic financial laws, the fluctuations will be less violent, they will be more foreseeable and the builder will be better able to protect himself against them. Through making rules and regulations CMHC can, at times of easy availability of labour and materials, give some stimulation to house building and thereby stabilize both that industry and total employment. Any attempt to go further and unstabilize the house building industry in order to give greater employment relief is, in the opinion of the Association, unsound and unfair to this industry. It is very timely for the Royal Commission to investigate this whole subject, in order that it may recommend steps which will prevent another cycle of wild fluctuations such as took place since the passing of the National Housing Act, 1954. It is necessary to determine what has prevented the accomplishment of the aims of the National Housing Act, 1954, and what amendments to the Act, changes in its administration or improvements in its use are necessary to obtain its original objective - an objective, we believe, as sound today as it was in 1954.

Inadequate Base of NHA Mortgage Funds

4.28 Table 2 shows the housing starts by principal sources of financing in 1961. 59,186 units were started under the Act in that year.

35,334 by approved lenders and 23,852 by CMHC. CMHC made the greatest number of direct loans numbering 20,301 for regular housing units plus an additional 3,551 for limited dividend units. Their loans were closely followed by those of the Life Insurance Companies who made 19,988. The Loan and Trust Companies made a total of 15,330 while all the Chartered Banks together accounted for only 16 NHA loans in 1961.

4.29 Evidence of the fact that insufficient private sources of mortgage money exist is contained in the 1961 Annual Report of CMHC which states "Mortgage funds for new housing from approved lenders were in fairly good supply in 1961 but, in the absence of loans from chartered banks, they did not prove adequate to meet all demands. They were supplemented, in the National Housing Act sector, by public funds in the form of loans by the Corporation for which there was a steady demand throughout the year."

TABLE 2

HOUSING STARTS BY PRINCIPAL SOURCES OF FINANCING - 1961

Source of Financing	Number of Units (1)	Per-Cent
Public		
Direct Government House-building	2,778	2.2
Private		
Loans Under NHA		
Direct CMHC Loans		
Limited-Dividend	3,551	2.8
Other	20,301	16.2
Sub-total	23,852	19.0
Approved Lenders		
Chartered Banks	16	.0
Life Insurance Companies	19,988	15.9
Loan, Trust Companies, etc.	15,330	12.2
Sub-total	35,334	28.1
Conventional Institutional Loans		
Life Insurance Companies	24,347	19.4
Loan, Trust Companies, etc.	13,969	11.1
Sub-total	38,316	30.5
Government Assistance other than NHA (Includes Government Loans under the Veterans' Land Act, the Farm Credit Act and Guarantees under the Farm Improvement Loans Act.)	1,993	1.6
Other Financing	23,304	18.6
TOTAL	125,577	100.0

4.30 In turning to the CMHC Annual Report of 1960 it also pointed out the lack of private money by stating, "Although there was a very marked increase in NHA housing starts financed by Life Insurance Companies and Trust and Loan Companies this was not sufficient to offset the virtual withdrawal of the banks and the smaller number financed by the Corporation as a residual

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(1) CMHC "Canadian Housing Statistics - 1961" - Table 35.

lender."

4.31 The Minister of Public Works also mentioned this same condition when he said (1) "......... The Federal Government has found it necessary throughout the last quarter century to provide financial assistance for new housing. This has been done through joint undertakings with the provinces and municipalities and by various systems of guarantees, loan insurance and direct lending."

4.32 "But the guiding principle has always remained that, although the Federal Government may act to stimulate the market for new house building and help to meet the demand so generated, it should not assume the direct responsibilities that constitutionally belong to other governments or that could be effectively borne by private enterprise........."

4.33 "Now it is obvious that introduction of the banks enabled us to tap a new source of funds for residential construction. Previously, loans under the Housing Acts had been made mainly by the life insurance and trust and loan companies and, although these companies had invested large sums of money in mortgages, we had been faced - because of our physical expansion - with periodic shortages of funds. Moreover, there were clearly limits to

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the extent to which we could continue to expect the traditional lenders to carry mortgages in their investment portfolios. In some instances, the ratio of mortgage loans to total assets began to be high and future investments would have to depend upon the annual growth in assets of these companies. These sources therefore could not be looked to indefinitely for financing an adequate housing program."

4.34 "There was one other factor. The joint loan system required extensive use of Government funds and we expected that, with introduction of the insurance system, virtually all the money needed would come - as it should - from private sources. Obviously, there would be instances where the Government might still have to use public funds to make mortgage loans but these would be confined to special programs - low-rental housing, for example - or to lending operations in areas not served by institutions."

4.35 "During the first few years after 1954 everything went according to plan. The banks developed a taste for mortgage lending and seemed anxious to build up their portfolios as quickly as possible. As a matter of fact, at one time some of the banks were making loans at less than the maximum NHA interest rate."

4.36 "But we found that as soon as the banks

had invested what they considered to be a sound proportion of savings deposits in this form of security, their interest waned and we reverted to our previous position. The growth of bank assets did not elicit a sufficient flow of mortgage funds to sustain an adequate volume of lending and the difficulty was compounded when we were obliged to raise the NHA interest rate above 6%, the limit imposed by the Bank Act on rates that may be charged by banks in this country. I might also explain that the Government attempts to keep the NHA rate in line with other long-term borrowing rates........."

4.37 "The Government is still the lender of last resort, we still act in a residual capacity. But the extent of our participation in the mortgage market has become much, much greater than originally contemplated."

4.38 In view of the foregoing remarks by the Minister and the figures which we have seen, it appears obvious that there is an inadequate base of residential mortgage funds available in Canada without direct Government assistance. It is also obvious that it was never intended that the Government participate regularly as a mortgage lender. This Association has recommended in the past that the Government withdraw gradually from direct lending operations and that suitable alternative sources of financing be established

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to replace its operations. So far these sources have not been forthcoming.

The Chartered Banks and the NHA

4.39 The Canadian chartered banks at the end of 1961 had on deposit some $7,618 million (1) of personal savings but in spite of this enormous fund, during 1961 they made NHA mortgage loans in the amount of only $211 thousand (2) far less than their principal repayments (3). In fact their mortgage loans outstanding decreased during 1961 by some $18 million (4).

4.40 The banks control this huge reservoir of personal savings yet, as we have seen, these funds are no longer being channeled into residential mortgages.

4.41 Table 3 shows the history of bank lending since the passing of the National Housing Act, 1954. It is readily seen that their participation and lack of it, could not help but materially influence the Canadian housing industry. It is to be noted particularly that the drop-off in bank lending corresponded with the increase in the NHA interest rate from 6.1/2% to 6.3/4% in December 1959.

(Table 3 - p.30)

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(1) CMHC "Canadian Housing Statistics - 1961" - Table 42.
(2) CMHC "Canadian Housing Statistics - 1961" - Table 23.
(3) Bank of Canada - Annual Report 1961 - Page 62.
(4) Bank of Canada - Annual Report 1961 - Page 72.

TABLE 3

NHA MORTGAGE LOANS APPROVED BY THE CHARTERED BANKS.(1)

Period	Dwelling Units	Amount $ 000
1952	-	-
1953	-	-
1954	16,906	158,460
1955	34,457	326,188
1956	15,896	158,360
1957	15,687	173,364
1958	26,135	300,445
1959	14,844	175,427
1960	89	1,050
1961	17	211

4.42 Table 4 shows the total assets in mortgage loans held by institutional lenders at the end of 1960. (This happens to be the most recent date for which these figures are at hand.) The chartered banks with the greatest total assets had only 5.7% of them invested in mortgages, while the life insurance companies had 42.5%, the loan companies 75.7% and the trust companies 36.3%.

TABLE 4

TOTAL ASSETS AND MORTGAGE LOANS HELD BY INSTITUTIONAL LENDERS - 1960 (2)

(Millions of Dollars)

Approved Lender	Total Assets	Mortgage Loans Outstanding	Per Cent
Chartered Banks	16,917	971	5.7%
All Life Companies	8,040	3,412	42.4
Loan Companies	914	691	75.6
Trust Companies	1,302	472	36.3
Other	495	97	19.6
TOTAL	27,668	5,643	20.3%

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(1) CMHC "Canadian Housing Statistics - 1961" - Table 23.
(2) CMHC "Canadian Housing Statistics - 1961" - Table 49.

4.43 The annual requirements of funds for mortgage lending are a sufficiently high percentage of the annual personal savings that all depositories of personal savings should be permitted and encouraged to be active lenders in this field. This means particularly that the chartered banks must receive such permission and encouragement. It is therefore the recommendation of NHBA that the Bank Act be amended to permit the chartered banks to make mortgage loans at the prevailing NHA interest rate whatever it may be. Failing their active re-entry into mortgage lending, which they appear to view without enthusiasm, it is our further recommendation that legislation be enacted which would establish other channels through which personal savings may flow into mortgages. Two suggestions would be the passage of enabling legislation which would permit the establishment of Building Societies, patterned after those of the United Kingdom, which would be allowed to accept savings and invest them in mortgages, both insured and conventional. The second suggestion would be the passage of legislation which would permit the establishment of Building and Loan Associations and a mortgage banking system similar to those in the United States. By one manner or another it is imperative that a reasonable proportion of personal savings, now largely channeled into the chartered banks, flows into the mortgage market. Various legislative barriers now stand in the way of this

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accomplishment.

4.44 Table 5 sets out the comparative financing of FHA and NHA insured mortgages by type of lender. This table is significant inasmuch as it shows that the National, State and Savings Banks contributed 36.8% of loan amounts in the United States in 1961, whereas our chartered banks in 1961 contributed less than .04%. Even in 1955, the year they loaned the greatest amount of money ($326 million), our banks accounted for only 26.9% of the total NHA loans. (1)

4.45 This table also points out that the largest lenders in the United States are the Mortgage Companies while in Canada the Life Insurance Companies lead the group of approved lenders. The Savings and Loan Associations too were significant lenders, accounting for 10.5% of the U.S. total.

4.46 FHA, unlike CMHC, does not participate in providing direct Government money for mortgages but merely acts as the insuring agency. For instance, this table shows that in 1961 CMHC provided 37.5% of the NHA mortgage money in Canada while in the United States, 100% was supplied by the private sector of lenders and not the Government. This is the condition which NHBA would like to see Canada reach eventually.

(1) CMHC "Canadian Housing Statistics - 1955" (eth Qtr.) Table 18.

TABLE 5

COMPARATIVE FINANCING OF FHA (U.S.)
AND NHA (CAN.) INSURED MORTGAGES
BY TYPE OF LENDER - 1961

(Percent)

		U.S. (1)	CANADA (2)
Chartered Banks (Can.)			Less than .04%
Banks (U.S.)			
National Bank	17.0)		
State Bank	11.2)	36.8%	
Savings Bank	8.6)		
Life Insurance Companies		3.6	35.4
Trust Companies (Can.)		N.A	24.3
Loan Companies & Others (Can.)		N.A	2.7
Mortgage Companies (U.S.)		45.0	N.A.
Savings & Loan Associations (U.S.)		10.5	N.A.
Other		4.1	N.A.
F.H.A. (U.S.)		Less than .05	N.A.
C.M.H.C. (Can.)		N.A.	37.5
TOTAL		100.0%	100.0%

4.47 During the period when the chartered banks were actively participating in mortgage lending under the National Housing Act, they proved to be a particularly versatile media for the distribution of funds, especially in the more remote sections of the country. One characteristic of the residential mortgage activities of the other lenders, such as the life insurance companies, the loan companies and the trust companies has been that they prefer to distribute their loans in areas which they can conveniently service and inspect. This means that the more heavily populated sections of the country and those where these companies maintain their principal offices, have been the usual recipients of most of the loans from these sources.

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(1) Fourteenth Annual Report - Housing & Home Finance Agency, 1961, Table 3 - 15.
(2) CMHC - "Canadian Housing Statistics - 1961" - Table 26.

4.48 The chartered banks, having an extensive national coverage of branch banks in almost every community, made mortgage loans available for the first time in many of the smaller centres. The Atlantic provinces for instance benefitted greatly by the activities of the banks, since only a few of the other lenders regularly are active in that area.

4.49 Perhaps the principal reasons for the discontinuance of mortgage lending by the banks, aside from the interest rate, has been their experience that the NHA mortgages are not really 100% insured, and the fact that mortgages do not represent a readily disposable asset. The creation in Canada of an active secondary mortgage market would appear to be the best solution to this latter difficulty but this will be dealt with a little later in this submission.

(paras. 4.83 - 4.92)

Refinancing of Existing Houses.

4.50 The National Housing Act provides for the insuring of mortgages by approved lenders on new houses only. It does not provide, in any way, for insured mortgage loans on existing dwellings. Many owners of existing houses are confined to accommodation which has become inadequate or unsuitable for their present needs because of their inability to adequately refinance such dwellings for resale. By adequate refinancing

we mean financing to the same extent and under the same terms as that provided for new housing under the National Housing Act. There is a vast amount of our housing stock virtually frozen in this manner because the only available mortgages are conventional mortgages limited to 66.2/3% of the value of the property - possibly supplemented by a second mortgage at a high rate of interest.

4.51 Under the National Housing Act a home owner may now finance a new house with an insured first mortgage based on 95% of the first $12,000 of lending value and 70% of the remainder, up to certain specified limits for each dwelling unit, depending on type and size. This sort of financing allows low initial down payments, particularly since the term of the mortgage may extend for 35 years. Interest, which is now set at 6.1/2% per annum is moderate and probably as low as could reasonably be expected, considering other prevailing interest rates.

4.52 Since this sort of financing is not available on existing houses, it is much easier for the prospective home owner with limited means to buy a new house than it is to purchase an existing house. Because new houses are generally built in the suburbs, it follows then that new home owners are almost automatically forced to move further and further from the centres of our cities, while home owners wishing to dispose of

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their houses in more central locations have great difficulty in finding buyers capable of meeting the high down payments which are required.

4.53 In order to supplement the smaller conventional mortgages, a thriving market in second mortgages has been created. Interest rates on second mortgages are frequently higher than on first mortgages, the term is generally shorter and there is usually a substantial bonus to be paid in addition. The actual interest rate, when all this is considered, can run as high as 40% on some second mortgages and often does exceed 20%. Unfortunately many unsuspecting home purchasers, when buying older houses, assume second mortgages which they later find great difficulty in carrying and not a few lose their entire investment as a result.

4.54 If refinancing were permitted under the National Housing Act, the original lender could supply a new mortgage at the current NHA interest rate, based on the appraised or actual current value of the property. The lender could retire the present loan and supply merely the difference to bring it up to the amount of the new loan. Since some earlier loans carry interest rates below the current rate, the lender probably would be agreeable to the refinancing. The new loan could carry the usual mortgage insurance protection which would be paid for by the 2%

mortgage insurance fee as in the case of loans on new houses. It seems only sensible to continue to utilize existing houses in the older parts of our cities, where schools exist and where the streets and sewers are installed, rather than let neighbourhoods gradually deteriorate through disuse.

4.55 Shortly after the Second World War a great many inexpensive houses were built. The owners of these, in many cases, have families which have outgrown their accommodation. Like the owners of the older houses, these people cannot resell because of their inability to refinance their homes. If this were possible, there would be a tremendous supply of low cost dwellings available for persons of low income. These buildings cannot be reproduced at their initial cost in today's market. Prospective purchasers here too must look to the suburbs to fill their housing needs. Our whole financial structure under the National Housing Act forces people to the outskirsts in search of new houses with low down payments, whereas many might prefer to purchase in more central locations if refinancing was available.

4.56 If the home owner cannot resell his house in order to buy a new one, the builder likewise cannot take it in on trade because he finds himself in a similar situation when he comes to dispose of it. In effect then, without NHA refinancing there is no real trade-in market for

used houses. This prevents people who wish to do so from purchasing new houses since the builder, cannot take in the present house and they cannot sell it. They are locked in.

4.57 An effective trade-in market should be an essential element in the housing industry. The freedom to exchange old and new houses is one of the necessary ingredients to movement and healthy activity within the industry.

4.58 In the United States, under the Federal Housing Administration, new and existing houses are financed under exactly the same terms. A great deal of experience has been accumulated since 1934 when this legislation came into effect. So important is the refinancing of existing buildings that last year FHA insured loans on older properties amounting to 63% of its total commitments, while those of new properties amounted to only 37%.

4.59 Mr. Neal Hardy, the FHA Commissioner, in a recent interview stated that the high percentage loans available for older houses are responsible for the great degree of activity which prevails in the U. S. housing market. He said that he regarded the older house market of vital importance to the housing industry as by far the greatest number of new house purchasers come from the group which already own homes but

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wish to exchange them for new ones. Mr. Hardy said that the insuring of loans on older houses was an integral function of FHA and that he could not see how it would be possible to operate without it and still retain an active housing market.

4.60 When asked for his opinion regarding the possible diversion of available mortgage funds in Canada from new housing to old, should the terms of our National Housing Act be expanded as suggested, Mr. Hardy thought there certainly would be a great deal of mortgage money diverted. He pointed out, however, that Canada does not have the same broad base of available funds for mortgage purposes which exists in the United States. Our banks, for instance, he said, unlike those of the U.S., do not at present participate in mortgage lending. This deprives us of an enormous fund of private savings, which otherwise might find its way into mortgages.

4.61 On March 5th, 1962 the National House Builders Association presented a brief to the Minister of Public Works requesting that the terms of the National Housing Act be expanded to include the refinancing of existing houses. We did not suggest that the Government make direct loans on existing dwellings, but rather that approved lenders be permitted to make the higher percentage loans presently allowed and insured on new houses, under the Act. We believe that this measure would

wish to exchange them for new ones. Mr. Hardy said that the insuring of loans on older houses was an integral function of FHA and that he could not see how it would be possible to operate without it and still retain an active housing market.

4.60 When asked for his opinion regarding the possible [illegible] Canada from new housing to old, should the terms of our National Housing Act be expanded as suggested, Mr. Hardy thought there certainly would be a great deal of mortgage money diverted. He pointed out, however, that Canada does not have the same broad base of available funds for mortgage purposes which exists in the United States. Our banks, for instance, he said, unlike those of the U.S., do not at present participate in mortgage lending. This deprives us of an enormous fund of private savings, which otherwise might find its way into mortgages.

4.61 On March 5th, 1952 the National House Builders Association presented a brief to the Minister of Public Works requesting that the terms of the National Housing Act be expanded to include the refinancing of existing houses. We did not suggest that the Government make direct loans on existing dwellings, but rather that approved lenders be permitted to make the higher percentage loans presently allotted and insured on new houses, under the Act. We believe that this measure would

permit the best utilization of Canada's residential inventory, while at the same time we are of the opinion that it would stimulate a considerable degree of new housing.

4.62 It was our thought that limitations should be placed on just what cases could be eligible for refinancing. We had in mind that applications would be limited to houses for sale by their owners when they wished to purchase a new house. There would be no consideration given to a person who simply wished to place a new mortgage on his house in order to raise funds for some other purpose. The privilege of refinancing, we suggest, should also be extended to builders who wish to take in houses in trade on new houses or other existing houses which they own. In other words, an element of sale or exchange should be a prerequisite to eligibility for refinancing.

4.63 Where a mortgage presently is in existence, the mortgagee, we thought, should be given the first opportunity to refinance the house. In cases where present mortgages legally cannot be discharged or where the present mortgagee is unwilling to discharge his mortgage, then refinancing would not be possible. Any bonus payments applicable to discharge the mortgage would form a part of the costs of refinancing. One other cost would be the 2% mortgage insurance fee which would apply on the new mortgage, paid

inventory, at the same time as one of the [illegible]

[illegible]

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for by the applicant, just as at present in the case of new NHA mortgage loans.

4.64 It might be beneficial to spend a moment attempting to assess the effect of such a re-financing program on present mortgage lenders. Those institutions, which already hold mortgages on existing houses at interest rates below the present 6.1/2% NHA rate, would probably welcome the opportunity to refinance their old paper at the new and higher rate. In fact it might turn out that those in this category would be inclined to divert all possible funds towards this end. The prospect might prove of sufficient attraction to persuade them to make available for this specific purpose a greater percentage than usual of their investment portfolios. As we mentioned before, only the amount of new money required to bring the existing mortgage up to the amount of the new loan would be necessary and not 100% of the new loan figure.

4.65 Where existing mortgages are held by lenders, not presently approved to loan under the Act, there might be sufficient inducement for them to apply for approval in order to participate in refinancing their existing loans. On the other hand, it is probable that they enjoy present interest rates as high or higher than the NHA 6.1/2% rate, in which case they would be content to retain their present loans.

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4.55 [illegible]

not [illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

4.66 The companies most adversely affected by an NHA refinancing program would be those providing conventional mortgages. They would not be competitive with 66.2/3% maximum loans at interest rates around 7%, in comparison with NHA loans up to 95% at 6.1/2% interest. The decision remains though whether the public would not be best served by the availability of the latter. Those companies not presently approved would likely seek approved lender status in order to compete for business.

4.67 Second mortgages would no longer be in demand to fill the gap between conventional loans at 66.2/3% and some higher figure. This would relieve home purchasers of the heavy interest burden many have been forced to assume in order to secure much needed financing.

4.68 There would appear to be no valid reason why the percentage of loan under NHA should not be the same on older houses as it is presently on new houses. The loan will be 100% Government insured and provided the lending value is determined by a proper appraisal procedure the approved lenders making such loans will have the same degree of protection that they presently have on new dwellings. This practice is followed in the United States where their National Housing Act Title II, Section 203(b) authorizes FHA to insure mortgages, on new and existing one-to-four family dwellings, from $22,500 to $35,000. Exactly the

same percentage of loan and the same terms apply equally on the new and existing properties.

4.69 <u>NHBA therefore wholeheartedly recommends that the provisions of the National Housing Act, 1954 be expanded to include the insuring of mortgages on existing houses in the same manner and to the same extent as mortgages are presently insured on new houses under the Act.</u> The fact that the need for additional sources of mortgage funds will inevitably result, merely strengthens our previous assertions that there is in Canada an inadequate base of residential mortgage financing.

<u>The NHA Interest Rate</u>

4.70 There has been considerable agitation in some quarters to have the NHA interest rate lowered as a means of relieving the burden upon new home owners. One political party in fact, during the recent election campaign,advocated the lowering of the rate to 3%. We have already seen the effect of too low a rate when approved lenders progressively withdrew from insured lending under NHA during 1959. The rate had stood at 6% from January 1957 to December 1959. Rising interest rates in other quarters wooed away the funds of the lenders. In 1959 they made only 26,600 loans compared with 44,500 the year before. In December 1959 the NHA interest rate was increased from 6% to 6.3/4% and only then did the life insurance, the trust and the loan companies respond.

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4.71 In considering the interest rate on NHA mortgages, it should be borne in mind that, to the borrower, this is a minor consideration compared to the fact that, due to the Government guarantee, he can purchase a home with a relatively small down payment and, due to the length of time over which the principal is repaid, at a relatively low monthly cost. To the borrower, the difference between a rate of 6.1/2% and 7% is not the primary factor, whereas to the lender it is very important. It is important that the ceiling, if imposed by the Government, should not be a factor in preventing the flow of funds into the mortgage market. Competition among lenders would keep the interest rate at the proper level, were there sufficient numbers of them anxious to invest in NHA mortgages.

4.72 The maximum interest rate permitted on NHA loans periodically is out of line with interest rates in other parts of the capital market according to one prominent economist (1). The volume of NHA funds which private lenders are willing to supply varies with the attractiveness of NHA loans relative to alternative investment outlets. This fact has been demonstrated repeatedly, this expert asserts. With conventional loans there is not the same problem of misalignment of interest rates, since there is no statutory limit on conventional rates.

4.73 THE NHA rate gets out of line periodically

(1) J.V. Poapst, Assistant Professor, Finance, Institute of Business Administration, University of Toronto.

because of its relative inflexibility. It is changed from time to time but not often enough or by enough to keep it consistently attractive. Changing it creates problems. The onus for change falls upon the Government. Increases usually produce adverse public reactions. It is natural that the Government should delay increasing the rate until it is certain that an increase is necessary. A decline in the volume of private lending strengthens the case for increasing the rate. Adverse public reaction does not attend reductions in the rate. They are welcomed. There is, however, a problem created by reductions in the rate. This is a problem in the lending process itself. All changes in the rate of course are widely publicized. When the rate is reduced, prospective borrowers whose applications for loans are already in process, seek and usually obtain loans rewritten at the lower rate. Refraining from lowering the rate following minor decreases in other market rates limits the number of upheavals in the lending process. This also tends to restrain increases in the rate until it becomes clear that the higher rate would not soon have to be reversed.

4.74 The relative inflexibility in the NHA rate has the disruptive effect of encouraging speculation over changes in the rate. This tends to create a disorderly market. If an increase in the rate

is expected private lenders tend to reduce their volume of lending and if a decrease is expected they tend to increase it.

4.75 There seems to be considerable reluctance on the part of the borrowing public to accept readily increases in interest rates. This reluctance is not peculiar to the NHA rate, although antipathy towards its increases may be greater than that towards others. The fact that there is opposition to increases in interest rates is unfortunate. Higher interest rates are a necessary concomitant of monetary restraint. It is important to remember that while increases in many other prices seem irreversible, interest rates do fall. They are not determined by collective bargaining.

4.76 Failure to raise the NHA rate when other interest rates are rising as a result of monetary restraint places an unfair share of the burden of restraint upon the house building industry. The provisions for setting the maximum rate merit examination. The Act provides that whenever a new rate is struck for insured loans it may not exceed by more than 2.1/4% the prevailing rate on 20-year Government of Canada bonds. This formula was introduced in 1951. It was associated with a change in general monetary policy. Formerly monetary policy had been directed towards supporting the prices of Federal Government bonds. When the policy of supporting bond

prices was abandoned, the formula for changing the NHA rate was introduced in keeping with the new flexible monetary policy. Despite the increasing use of monetary policy in recent years, no change has been made in the formula apart from minor adjustments which were necessary when insured lending replaced joint lending in 1954.

4.77 The formula appears to be defective and largely obsolete. It provides that the maximum shall be set in relation to a 20-year Government of Canada bond. It is difficult to see why this connection should be made. If it implies that Government of Canada bonds with maturities in the vicinity of 20 years are a significant alternative to investment in NHA loans, the implication is wrong. The most important type of approved lender is the life insurance companies. From 1951 to 1957 inclusive, the life insurance companies were net sellers of Government of Canada bonds.

4.78 If the NHA rate must be set in relation to Government of Canada bond yields, it seems incorrect to set it in relation to 20-year bonds. The NHA loan is not a single maturity investment. It is a mixture of short, intermediate and long-term maturities ranging from one month to 25 years. Twenty years is not the period to final maturity, the average maturity of the monthly instalments of principal is about 15 years, while

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the average effective maturity of NHA loans is less than 15 years. Each maturity of the NHA loan bears the same rate of interest but each maturity of Government of Canada bonds does not. Moreover, the yields on the various maturities of Government of Canada bonds do not change uniformly. The difference between a change in the margin of the NHA rate over a comparable schedule of Government of Canada bonds and a corresponding change in the margin between the NHA rate and the 20-year bond can be sizeable. It would be more exact to think of premiums in the NHA rate over a comparable schedule of Government of Canada bonds.

4.79 However, if NHA lending is to be governed by a maximum rate, it would be more realistic to set it in relation to yields on important rather than secondary investment alternatives. This would mean setting it in relation to chartered bank prime commercial loan rates and rates on conventional mortgage loans.

4.80 Such an arrangement might be an improvement over the present formula. But it would not overcome one important cause of NHA rate inflexibility. The Government would remain responsible for increasing the rate. One way to dispose of this problem is to eliminate the maximum. The responsibility for increasing the rate would fall upon each lender and the NHA rate

would be free to respond to the changes in interest rates in other parts of the capital market.

4.81 As long as there is adequate competition between lenders, borrowers would obtain loans at a fair rate of interest. The rate of interest would rise and fall, but as long as it was determined under truly competitive conditions, it would be difficult to argue that it was unfair. Competitive price determination is a central feature in the private enterprise system in which we supposedly believe. Some would argue that the NHA interest rate on insured loans should be less than the free market rate, that the NHA rate should in effect provide a subsidy. This argument would carry more weight if low income families were important NHA insured loan borrowers. CMHC data shows that 93.9% of homeowner borrowers in 1961 had incomes above $4,000.00 a year. (1).

4.82 It would not be feasible to remove the maximum rate of interest provision of the National Housing Act without taking steps to ensure that investors of all types had every opportunity of investing in NHA loans. As in the past, NHBA advocates that the NHA interest rate be freed to find its own level in the same manner as conventional rates do, just as soon as the base of NHA mortgage funds is broadened sufficiently, as we

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(1) CMHC "Canadian Housing Statistics - 1961" - Table 65

have suggested. In the meantime the NHA interest rate should be adjusted with sufficient frequency and kept sufficiently high to encourage mortgage lending at all times.

The Secondary Mortgage Market

4.83 One of the principal factors which limits investment in NHA mortgages is their relative lack of marketability. Until recently there had never been a significant market for disposing of insured mortgage loans. This meant that once the approved lenders had built up portfolios which they considered to be a prudent percentage of their total investments, their continued rate of mortgage lending was determined by their annual growth of assets and the amount of principal repayment on their outstanding mortgages.

4.84 The chartered banks for instance, at the end of 1961 held $958 million in NHA mortgages for which there was not a ready market. The development of a secondary market would free additional funds for NHA lending and would reduce the present dependence upon Government funds for new lending.

4.85 One other difficulty is that many potential purchasers are unaware of the investment opportunities afforded by mortgages. There has not been too much interest shown by non-institutional investors such as pension funds, trusts and estates, and others who are not familiar with

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mortgage insurance protection and consequently do not realize that they can buy what amounts to a mortgage bond, supported by a Government guarantee. It generally is true that mortgages offer the investor yields that are high in relation to the firmness of security.

4.86 There has developed a need for a new type of Corporation whose prime function would be to own and trade in NHA mortgages and to issue in its own name the usual corporate securities, secured against insured mortgages. This would make it easy for private and other investors to invest indirectly in mortgages, without actually acquiring the mortgage itself, which they are not equipped to service.

4.87 Some new private corporations of this type now exist and when their operations are further developed, their securities should prove popular and attractive to investors who would be unlikely to make direct investments in NHA mortgages themselves, due to their lack of mortgage experience. They remove from the investor all responsibility for and concern about the administration of the mortgages. Thus the creation of new tradeable instruments permits a high degree of liquidity not possessed, as we have stated, by the direct mortgage investment itself.

4.88 It has been pointed out by some of those

connected with the establishment of the new secondary mortgage companies that there are regulatory barriers preventing them from functioning as freely as they might wish to do. Specific proposals have, we understand, been made to the present Royal Commission for overcoming these obstacles and we would suggest that due consideration be given to investigating them and, if necessary, recommending remedial action.

4.89 It has been pointed out by these companies that there are certain inherent disadvantages to NHA mortgages which do not make them as attractive investments as they would at first appear to be on the surface. For instance they point out that the 100% insurance feature while good in theory does not in fact work out in practice to be a 100% insurance. The lender invariably ends up with something less than 100% of his investment in cases where resort has to be made to the insurance feature alone. There is also more administration involved in making an NHA loan than a conventional loan, the repayment privilege permitted under an NHA mortgage is more liberal than normally exists under a conventional mortgage. The mortgage has to be serviced either by CMHC or an approved lender at a cost which bears no relationship to the outstanding principal and there is a certain possibility of title unacceptability on the part of CMHC. Partly, or possibly entirely because of

these shortcomings, some approved lenders who once did so, have ceased to make loans under the National Housing Act.

4.90 NHBA had previously advocated to the Government, the establishment of a secondary mortgage market in Canada and therefore welcomed the announcement made by the Minister of Public Works in Ottawa on April 17th, 1961 that the Government was undertaking through CMHC, the immediate development of an active secondary market in NHA insured mortgage loans. Since that time several sales from the portfolio of CMHC have taken place with considerable success.

4.91 Two out of three mortgages traded in the secondary market in 1961, or $170 million, (1), were purchased by pension funds. This is a source of mortgage money largely untapped up to now. Pension fund assets at the end of 1960 amounted to $3.6 billion or about one-half of the $7.2 billion savings accumulated in the chartered banks and about 45% of the $8.0 billion assets held by the life companies. The absolute growth of pension fund assets averaged nearly $400 million over the period 1953-1960 - not much below that of life insurance company assets, and has actually exceeded the absolute growth of those bank assets which derive from savings deposits. We say that pension fund assets are largely untapped since

only 8% are presently invested in mortgages compared to 42% for life companies.

(1) CMHC Annual Report - 1961, Page 10.

4.92 NHBA recommends that the secondary mortgage market be given added emphasis and that the present restrictions which have curtailed the activity in this field be removed. A high degree of liquidity in NHA mortgages would undoubtedly be a most important factor in inducing lenders to increase their participation in this form of investment and in attracting new lenders.

Characteristics of NHA Borrowers & Houses

4.93 The average single family house financed under NHA in 1961 had 1,154 sq. ft. of livable floor area, was a three-bedroom bungalow and cost $14,474.00. The average house purchaser paid $2,475.00 as a down payment which was 21.7% of his annual income, which averaged $5,810.00. The age of the average borrower was 34 years and most of the families had one or two children.

4.94 Examination of Table 6 will show that incomes of applicants under the National Housing Act are largely grouped between those earning from $3,000.00 to $8,000.00 a year. The percentage able to qualify for an NHA house below the $3,000.00 figure is negligible.

TABLE 6

INCOMES OF APPLICANTS UNDER THE NATIONAL HOUSING ACT 1961 (1).

(percent)

Applicant's Income	Percent
Under 2,000	Less than 0.1%
2,000-2,999	0.2
3,000-3,999	5.9
4,000-4,999	28.1
5,000-5,999	29.4
6,000-6,999	17.2
7,000-7,999	8.9
8,000-8,999	4.5
9,000-9,999	2.1
10,000 and over	3.7
TOTAL	100.0

(1) CMHC "Canadian Housing Statistics - 1961" Table 58.

SECTION 5

CONVENTIONAL MORTGAGE FINANCE

Legislative Limitations on Conventional Mortgages

5.1 For years the upper limit for conventional mortgages stood at 60% of the value of the property. About a year and a half ago, the Canadian and British Insurance Companies Act, The Loan Companies Act and the Trust Companies Act were all amended to increase the lending proportion to 66.2/3%. This was a compromise figure arrived at by trying to satisfy everyone. Some lending institutions thought it should have been higher. In England, insurance companies are permitted to invest in any situation which is deemed favourable in the judgment of the Board of Directors (1).

5.2 There is a wide range of risk involved in making mortgage loans. The physical condition of the property is but one of many determining factors. There are others, the personal record of the mortgagor, the term of the loan, the rate of interest, the saleability of the property in the event of foreclosure etc. All of these should form a basis for determining the amount of the loan - not merely the arbitrary limit of a percentage of the appraised value.

(1) Address of the President - The Dominion Mortgage and Investments Association - Annual Meeting 1961.

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Conventional Mortgage Interest Rates and Terms

5.3 Conventional mortgage interest rates are free to respond to the availability of conventional mortgage funds. When there is a surplus of funds, the conventional lenders compete against each other for a place to locate their money. They reduce the interest rate as an incentive to the borrower. When conventional funds become scarce, the lenders are able to ask and get a higher rate of interest. This is the normal functioning of the supply and demand system by which our free enterprise economy works.

5.4 Conventional mortgage rates on housing have varied between 6.3/4% and 8% for several years and appear to be located at about 7% to 7.1/4% at the present time. This is about 1% to 3/5% above the present NHA interest rate.

5.5 The term of conventional mortgages is usually shorter than the NHA term. Ten to 20 years is the usual range of most conventional residential mortgages. This means that although the amount of the mortgage in terms of the property value is not over 66.2/3%, the short term makes the repayment per month relatively high in comparison with an NHA mortgage at a longer term.

Second Mortgages

5.6 Since purchasers often do not have 33.1.3% or more to put down on properties financed by conventional mortgages, they are forced to

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Down Payments

Since purchasers often do not have 33-1/3% or more to put down on properties financed by conventional mortgages, they are forced to

borrow part of the equity they must provide. The borrower's only recourse frequently is the second and, at times, third or fourth mortgage.

5.7 Interest rates on second mortgages are high and terms of repayment are generally short, resulting in high carrying charges. In addition, there is frequently a substantial bonus to be paid by the borrower, which still further increases the actual rate of the loan.

5.8 With such supplementary mortgage payments jeopardizing the ability of the borrower to keep up his payments on the first mortgage, there is more risk to the first mortgagee than if he had provided all of the principal amount of the first and supplementary mortgages together, in his first mortgage at its more moderate terms.

5.9 NHBA would recommend that the statutory limitations on the Life Insurance Companies, the Loan Companies and the Trust Companies be eased to permit them to use greater individual discretion in making conventional mortgage loans. Should there be reluctance to open the ceiling on conventional loans, as in Great Britain, we would strongly suggest raising the upper statutory limit on this type of mortgage to at least 80% of the value of the property.

SECTION 6

THE CHANGING PATTERN OF OUR HOUSING

The Increase in Multiple Family Units

6.1 Since the termination of the last war, there has been a steady change taking place in the form of housing being built in Canada. The single family house was once the predominant type. Back in 1948, for instance, 80% of the units were single family and only 11% were apartments. (1) However, by 1951, multiple family units had risen to 25.9% and the figure was higher in 1961 when it reached 34.2% - over 1/3 of all construction in the housing field.

6.3 In areas of 5,000 population and over, multiple family units made up 48% (including semi-detached) of the home building activity in 1961. (2) In Metropolitan Toronto, 76% of residential construction last year was of the multiple family type (3). As we progress as a nation and as more and more of us move into our cities, our housing requirements change. In the older Canada before the war more people lived in rural areas and in smaller communities. The cities into which they have migrated are becoming large and sprawling. Many people are finding single detached houses less

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	Table
(1) CMHC "Canadian Housing Statistics - 1961"	9
(2) CMHC "Canadian Housing Statistics - 1961"	8
(3) CMHC "Canadian Housing Statistics - 1961"	15

suited to this urban life and hence duplexes, semi-detached houses, town houses, apartments and other forms of communal accommodation are gaining favour. Builders have recognized this shift in the market and have gradually changed their operations to the multiple housing field.

6.3 Multiple housing may be rental accommodation or it may be owned co-operatively. There is a whole new field of opportunity opening up for home ownership in multiple projects. Low wage earners can hardly aspire to owning a single detached house in many of our urban communities. Land costs are too great and can best be overcome by increasing the number of families which occupy an acre of ground. Builders, designers and architects have been working on this problem of increased density and there are now numerous examples of excellent solutions involving multiple housing units which are attractive, economical and vastly better than the living accommodation presently provided for those in the very limited income groups.

6.4 The advent of the rental unit has produced a new type of borrower, the rental entrepreneur and the Limited Dividend Corporation. Some of these are builders, others are investors who have decided to become apartment owners. Table 7 shows that entrepreneurs in 1961 acquired NHA mortgage loans for 11,470 units. In addition, Limited Dividend Corporations took out loans for 3,326 units.

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The advent of the rental unit has produced a new type of borrower, the rental entrepreneur and the Limited Dividend Corporation. Some of these are builders, others are investors who have decided to become apartment owners. Table 7 shows that entrepreneurs in 1961 acquired NHA mortgage loans [illegible] Corporations took out loans for 3,3?6 units.

Their mortgages are bulk mortgages for a whole building or complex of buildings, rather than individual mortgages for each housing unit, as in the case of detached single family houses. This indicates a shift in the type of financing which will be more prevalent as time goes on.

6.5 It is anticipated that the 20-29 year age group which is to show such an increase in this decade will be in the market for multiple family and low-cost housing. They will not be earning large salaries, will probably not have large, if any, down payments to make on expensive houses, but will require low cost housing. The multiple unit, either owned or rented, is apparently the best answer on the horizon today. It is the only form of housing able to overcome the high cost of serviced land. By use of increased density, that is more persons per acre of land, the land cost per unit of accommodation comes down. Serviced land costs for single family houses meanwhile are continuing upward at an astounding rate - a rate which cannot be matched by improved building techniques and reduced construction costs.

TABLE 7

NHA MORTGAGE LOANS APPROVED
1961 - (1)
(Dwelling Units)

BORROWER	No. OF UNITS
Approved Lenders' Loans	
Owner Applicants	3,658
Builders	23,515
Rental Entrepreneurs	11,470
Sub-total	38,643
Direct CMHC Loans	
Owner Applicants	14,027
Builders	7,044
Limited Dividend Corporations	3,326
	24,401 (2)
TOTAL NHA LOANS	63,044 (2)

6.6 The other group, the 70 years plus group, which is also to increase in the 1960's is another for which multiple family housing is very appealing. Older persons find the responsibilities of single detached houses with their extensive home care less and less attractive. They are demonstrating this by their acceptance of the special forms of housing which have been constructed with their particular needs in mind. We have only scratched the surface of housing for the elderly.

(1) CMHC "Canadian Housing Statistics - 1961" Table 27

(2) Includes four rental units financed by direct CMHC Loans which are not shown elsewhere in the table.

TABLE 7

NHA MORTGAGE LOANS APPROVED
1961 - (1)
(Dwelling Units)

BORROWER	NO. OF UNITS
Approved Lenders' Loans	
Home Applicants	[illegible]
Builders	23,595
Rental Entrepreneurs	11,470
Sub-total	35,065
Direct CMHC Loans	
Owner Applicants	14,027
Builders	7,044
Limited Dividend Corporations	3,326
TOTAL NHA LOANS	63,044 (2)

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(1) CMHC "Canadian Housing Statistics - 1961" Table 27

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Urban Renewal and Redevelopment

6.7 Our thoughts for development of our cities have at last turned inwards after looking to the suburbs almost exclusively for the past number of years. We now recognize the need to renew and rebuild the centres of our cities. We have allowed these central areas to deteriorate to an alarming degree. In many cases the only remedy is to demolish whole sections and build anew. In others, where the decay is less advanced, we realize that we must undertake extensive rehabilitation and conservation of what is left. The field of urban renewal is just now opening up as a market for the housing industry. As more and more emphasis is placed upon renewal, by our municipalities, by our provinces and by the Federal Government, builders will be induced to enter this tremendous field of rebuilding and redevelopment. Undoubtedly new forms of financing will have to be created to meet the needs of urban renewal.

Home Improvement Program

6.8 On a smaller scale, new emphasis is being placed on another much needed program, that of home improvements. Many homeowners will be convinced of the desirability of improving their present dwellings and bringing them up to modern standards. As we become better off financially, we look around for places to spend our money. Home improvement is one market competing for our

dollars. A great desire for better living is being created in our public by the shelter magazines, by the advertisers and by the home improvement financing programs of the lumber dealers, the banks, as well as through the National Housing Act. In this latter connection, it is unfortunate that the maximum amount of an NHA home improvement loan is so small that it is inadequate to do many of the improvements needed and that the term of repayment is so short, with resultant high monthly charges. NHBA would recommend that the present limit on NHA Home Improvement Loans be increased from $4,000.00 to $8,000.00, that the repayment term be extended to 20 years, and the banks be permitted to charge the prevailing NHA interest rate.

6.9 As in the case of NHA 100% insured mortgage loans, the 100% insured home improvement loans offer the lender something less than full insurance coverage. By virtue of this fact, the banks are unwilling to rely entirely on the NHA insurance feature and are asking borrowers to supplement this Government "collateral" with collateral of their own. There are instances of borrowers having difficulty even getting loans of the permitted $4,000.00 from approved lenders under the Act, despite the insurance protection. An increase in the interest rate might have the effect of making these loans more sought after by the banks. The unfavourable features at present attached to NHA home improvement loans nullifies their usefulness

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to some considerable degree.

6.10 The banks made home improvement loans aggregating $42.6 million in 1961 as compared to $30.1 million in 1960 (1). At the end of 1961 they had outstanding loans of $65.9 million (1). They are almost the only lenders under this Section 24 of the National Housing Act. The Home Improvement Loan Insurance Fund, comprised of fees received from borrowers, amounted to $2.2 million at the end of 1961 (1).

(1) CMHC Annual Report - 1961, Page 23.

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(1) CMHC Annual Report - 1961, Page 23.

APPENDIX "A"

BUILDERS' ASSOCIATIONS AFFILIATED WITH THE NATIONAL HOUSE BUILDERS ASSOCIATION

1. Barrie Builders' Association
2. Brandon House Builders Association
3. Brant County Builders' Association
4. Brockville Branch, NHBA.
5. Calgary Housebuilders Association
6. Cornwall Branch, NHBA
7. Edmonton House Builders' Association
8. Elgin & St. Thomas Branch,NHBA
9. Fredericton Branch, NHBA
10. Frontenac Home Builders Association
11. Grey & Bruce Branch, NHBA
12. Galt-Preston-Hespeler Home Builders Association
13. Guelph Home Builders Association
14. Halifax Metropolitan Home Builders Association
15. Metropolitan Hamilton House Builders Association
16. Kitchener-Waterloo House Builders Association
17. Lakehead Housebuilders Association
18. Lethbridge House Builders Association
19. London Home Builders Association
20. Medicine Hat House Builders Association
21. Moncton Branch, NHBA
22. Montreal District House Builders Association
23. Niagara Peninsula Home Builders Association
24. Norfolk County House Builders Association
25. North Halton Builders Association
26. Oakville Builders' Association
27. Oshawa Builders' Association
28. Home Builders Association of Greater Ottawa
29. Pembroke Builders Association
30. Peterborough Home Builders Association
31. Societe des Constructeurs d'Habitations du District de Quebec Inc.
32. Quinte Home Builders Association
33. Red. Deer & District Housebuilders Association
34. Regina House Builders' Association
35. Sarnia Branch, NHBA
36. Saskatoon Home Builders Association
37. Sault Ste. Marie Home Builders Association
38. Southern New Brunswick Home Builders Association
39. St. John's Home Builders Association
40. Societe des Constructeurs d'Habitations du Saguenay-Lac St-Jean
41. Societe des Constructeurs d'Habitations de Sherbrooke et District
42. Stettler House Builders Association
43. Sudbury Home Builders Association
44. Toronto Metropolitan Home Builders' Association
45. Vancouver Metropolitan House Builders' Association
46. Great Windsor Home Builders Association
47. Winnipeg House Builders Association
48. Woodstock Home Builders Association

APPENDIX "B"

THE NATIONAL HOUSEBUILDERS ASSOCIATION

CODE OF ETHICS

The active members of this Association shall be limited to those persons and firms who shall subscribe to the following:

(A) Members of the National House Builders Association believe and affirm that:

(1) Home ownership by Canadian families should be encouraged.

(2) Canadian Houses should be well-designed, well-constructed and well-located in attractive communities, with educational, recreational, religious and shopping facilities accessible to all.

(3) Canadian Houses should be built under the free enterprise system.

(B) To achieve these goals, we pledge allegiance to the following principles and practices:

(1) Our paramount responsibility is to our customers, our community and country.

(2) Honesty is our guiding business policy.

(3) High Standards of health, safety and sanitation shall be built into every house.

(4) The right to a fair return for goods and services shall be upheld and protected in our relations with labour and all other segments of the industry.

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(4) The right to a fair return for goods and services shall be upheld and protected in our relations with labour and all other segments of the industry.

(5) As members of a progressive industry, we encourage research to develop new materials, new building techniques, new building equipment and improved methods of home financing, to the end that every home purchaser may get the greatest value possible for every dollar.

(6) All sound legislative proposals affecting our industry and the people we serve shall have our informed and vigorous support.

(C) We assume these responsibilities freely and solemnly, mindful that they are part of our obligation as members of the National House Builders Association.

OBJECTIVES

The objectives of this Association shall be:

(A) To associate the house builders of Canada for purposes of mutual advantage and co-operation.

(B) To develop and maintain within the house building industry, a high appreciation of the objectives and responsibilities of house builders in fully serving the public.

(C) To advocate and encourage the constant improvement of house building techniques and practices.

(D) To promote and protect house ownership among all the people.

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(C) To advocate and encourage the constant improvement of house building techniques and practices.

(D) To promote and protect house ownership among all the people.

(E) To co-ooerate with other trade associations in all matters related to advancing the house building industry.

(F) To advocate the standardization of building codes throughout Canada.

(G) To work in liaison with the Federal, Provincial and local authorities in matters concerning policy, stabilization and development of the house building industry.

(H) To promulgate and enforce a Code of Ethics for members of this Association.

(I) To collaborate with distributors and manufacturers of building materials and equipment to the end that maximum quality at minimum cost to the consumer be achieved.

(J) To issue such publications as may be necessary to disseminate information of value to its members, the public and the Government.

(K) To serve, advance and protect the welfare of the house building industry, in such manner that adequate housing will be made available by private enterprise to all Canadians.

(L) To form, at the direction of the Executive, a separate corporation to devote itself to research to the benefit of the builders and the people of Canada.

(M) To operate without profit and no part of the income of this Association shall enure to the benefit of any individual member.

APPENDIX "C"

LOG OF SIGNIFICANT DEVELOPMENTS
UNDER THE NATIONAL HOUSING ACT, 1954

March 1954 - Revised Act effective.

February 1955 - Maximum interest rate reduced from 5.1/2% to 5.1/4%. (In May banks voluntarily reduced their rate to 5%).

March 1956 - Ceiling rate from 5.1/4% to 5.1/2%

January 1957 - Ceiling rate raised from 5.1/2% to 6%

March 1957 - Banks undertook to lend $150 million on NHA mortgages in 1957.

September 1957 - CMHC announced $150 million immediately available through approved lenders for low-cost homes.

December 1957 - Following changes made in NHA regulations:

(1) 90% on first $12,000 instead of first $8,000.
70% on remainder unchanged.
Maximum loan unchanged at $12,800.

(2) As a rule of thumb, maximum permitted percentage of mortgage payments plus taxes to income raised from 23% to 27%.

(3) Additional $150 million fund made available.

(4) Loans to be made direct to builders, maximum 25 per builder.

May 1958 - Housing Act amended to increase amount available from Consolidated Revenue Fund for NHA mortgages from $400 million to $750 million. New

quota of 25 loans per builder per community established.

March 1959 - Housing Act amended to increase amount available from Consolidated Revenue Fund for NHA mortgages from $750 million to $1 billion.

July 1959 - Announcement that as of September 1, 1959 an additional $250 million would be available for mortgage lending by CMHC at 6%, with a quota of 15 loans per builder.

December 1959 - Ceiling rate increased from 6% to 6.3/4%. Also announced only $160 million would be available for direct loans in 1960.

March 1960 - Housing Act amended to increase amount available from Consolidated Revenue Fund for NHA mortgages from $1 billion to $1.5 billion. Announced that $175 million would be available for direct loans but to home owners only in under $5,000 income bracket.

July 1960 - Direct loans to builders permitted providing house already sold. Income bracket raised to $7,000.

October 1960 - All income ceilings withdrawn. Repayment period for direct loans 30 years. Builders permitted to apply for two display homes.

November 1960 - Housing Act amendments introduced as follows:

1. Maximum loan raised from $12,800 to $14,200 ($14,900 if more than three bedrooms.)
2. Maximum term extended to 35 years.
3. Amount of loan on first $12,000 raised from 90% to 95%.

quota of 25 loans per builder per community established

March 1959 - Housing Act amended to increase amount available from Consolidated Revenue Fund for NHA mortgages from $750 million to $1 billion.

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December 1959 - Ceiling rate increased from 6% to 6.3/4%. Also announced only $150 million would be available for direct loans in 1960.

March 1960 - Housing Act amended to increase amount available from Consolidated Revenue Fund for NHA mortgages from $1 billion to $2.5 billion. Announced that $175 million would be available for direct loans but to home owners only in under $5,000 income bracket

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October 1960 - All income ceilings withdrawn. Repayment period for direct loans 30 years. Builders permitted to apply for two display homes.

November 1960 - Housing Act amendments introduced as follows:

1. Maximum loan raised from $12,800 to $14,200 ($14,900 if more than three bedrooms.)
2. Maximum term extended to 35 years.
3. Amount of loan on first $12,000 raised from 90% to 95%.

4. No mention made of amount available for direct loans.

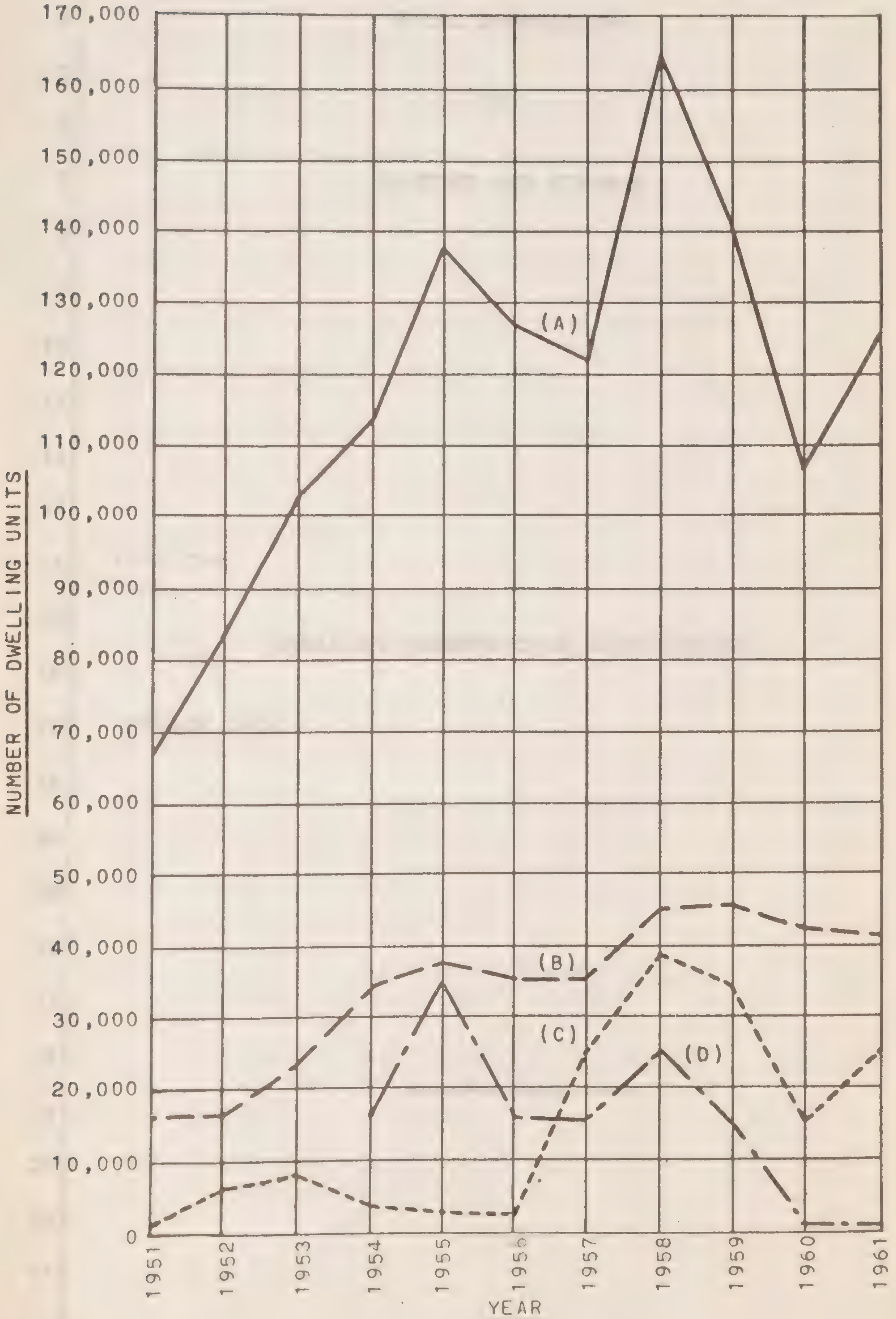
September 1961 - Authorized amount of Government money for direct lending increased from $1.5 billion to $2.0 billion.

October 1961 - Ceiling rate reduced from 6.3/4% to 6.1/2%

APPENDIX "D"

DWELLING STARTS IN CANADA
1951 - 1961

SOURCE: CMHC "CANADIAN HOUSING STATISTICS"

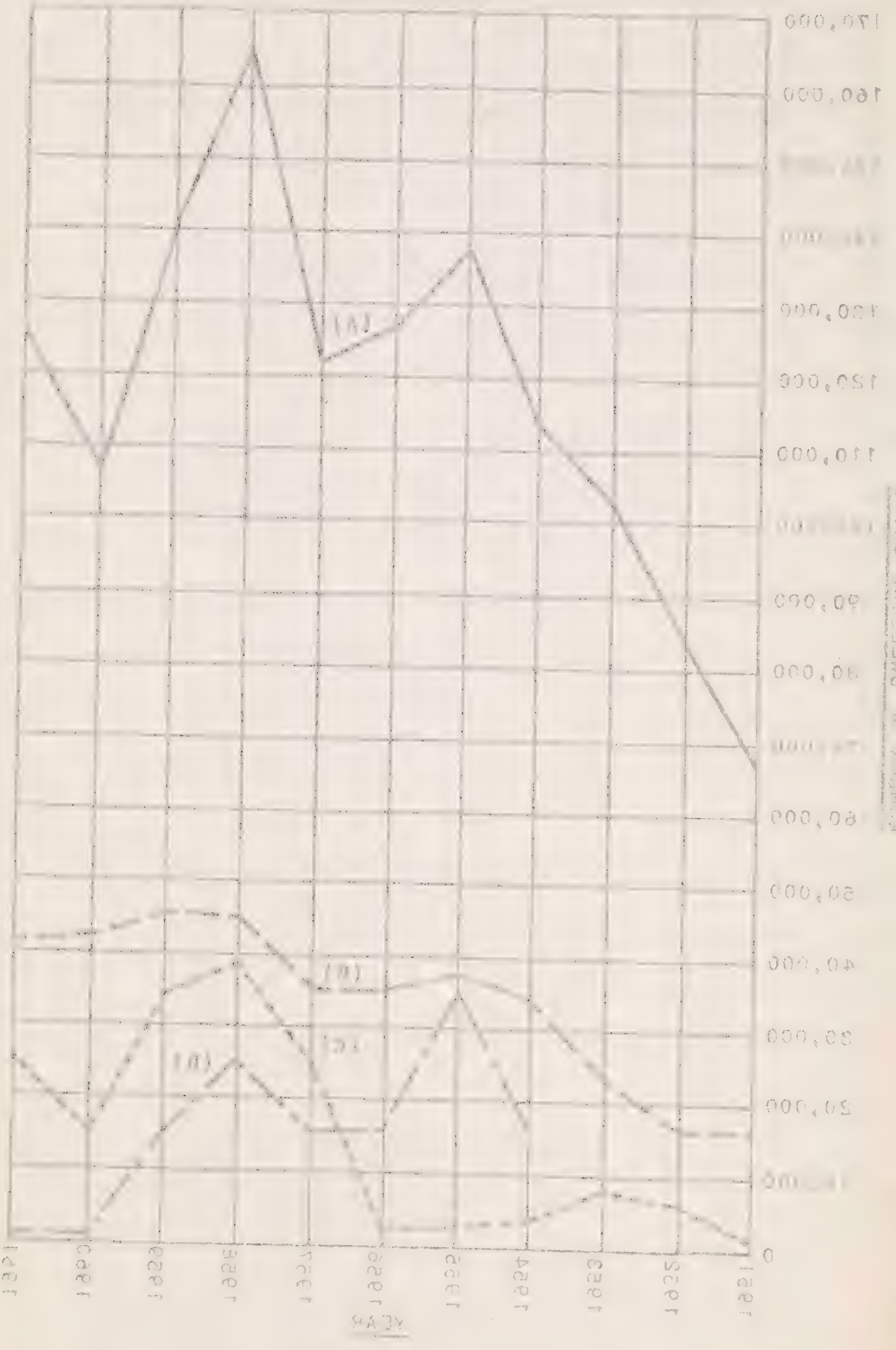


LEGEND:
(A) ——— TOTAL DWELLING STARTS IN CANADA.
(B) — — — CONVENTIONAL MORTGAGE LOANS - NEW CONSTRUCTION.
(C) - - - - DIRECT CMHC MORTGAGE LOANS.
(D) —— - —— NHA MORTGAGE LOANS BY CHARTERED BANKS.

DWELLING STARTS IN CANADA

1951 - 1961

SOURCE: CMHC "CANADIAN HOUSING STATISTICS"



(A) TOTAL DWELLING STARTS IN CANADA.

(B) CONVENTIONAL MORTGAGE LOANS - NEW CONSTRUCTION.

S U B M I S S I O N

TO THE

ROYAL COMMISSION

ON

BANKING AND FINANCE

from the

CANADIAN CONSTRUCTION ASSOCIATION

October 1962

TABLE OF CONTENTS

CANADIAN CONSTRUCTION ASSOCIATION
Construction House, 151 O'Connor Street
Ottawa 4, Canada

The Honourable Dana H. Porter, LL.D.
Chairman
and Commissioners
The Royal Commission on Banking and Finance
Ottawa, Ontario

Gentlemen:

1. The Canadian Construction Association was pleased to be invited to make a submission to the Royal Commission on Banking and Finance. Members of the construction industry are vitally affected by the subjects under review since the volume of their business is dependent upon the availability of funds and investment incentives to those wishing to make capital outlays. Similarly, contractors themselves are particularly dependent upon the chartered banks for their working capital requirements.

2. The Association also appreciated receiving a detailed outline of topics on which the Royal Commission especially wished to have recommendations or information. (It is hoped that future Royal Commissions will also follow this helpful course of action). Some of these assigned topics, however, have been left largely to those groups that have a more specialized interest in and knowledge of them.

3. The construction industry is Canada's

largest. Its volume reflects the degree of economic expansion under way. The influence of government outlays and policies on the size of the industry's operations is of paramount importance. Over 38 percent of the $7 billion construction programme in 1961 was estimated to represent direct expenditures by the Federal, Provincial and Municipal Governments. Their policies frequently are also the determining factor in the inititation of other projects. For example, a substantial portion of new private house construction has been financed under the terms of Federal housing legislation and at no net cost to the public. Central Mortgage & Housing Corporation has insured housing mortgages whose total value amounted to $500 million in one year. It is estimated that roughly 25 percent of the construction programme ($1 3/4 billion) has been carried out annually in recent times under the provisions of Federal legislation. Of this amount, less than half is represented by actual outlays by Federal departments, agencies and enterprises; the balance consists of loans, subsidies, grants and guarantees.

4. Then again, Government policies concerning tax rates, capital cost and investment allowances, credit, interest rates, trade and tariffs, immigration, resources development, urban renewal etc., greatly influence investment decisions by private owners. Inasmuch as the "private works programme" is roughly twice as large as the public works programme, it is obvious that government policy should be directed at

[illegible] The volume reflects the impact of economic expansion under way. The influence of government poli-cies and policies on the use of [illegible] materials is of permanent importance. Over 50 percent of the [illegible] billion construction programme in 19[illegible] was estimated to represent direct expenditures by the Federal, Provincial and Municipal Governments. Their policies [illegible] are also the determining factor in the [illegible] of other projects. For example, a sub-stantial portion of new private house construction has been financed under the terms of National Housing legislation and so [illegible] the public. [illegible] housing programme has assured housing mortgages whose total value amounted to $500 million in one year. It is estimated that roughly [illegible] of the construction programme [illegible] been completed [illegible] in recent times under the provisions of Federal legislation. Of this amount less than half is represented by direct [illegible] of Federal departments, agencies and corporations; the balance consists of loans, guarantees, grants and [illegible]

[illegible]

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stimulating capital investment (two-thirds of which is construction) in order that the means for economic expansion and increased employment be provided on a continuing basis.

5. The Canadian Construction Association has accordingly long advocated that effective incentives be introduced in our tax system as a method of stimulating capital investment. The reduction in the volume of construction outlays by Canadian manufacturers and the recently announced Federal public works cutbacks serve to provide additional supporting arguments to the Association's policy.

6. The incentives introduced in recent Federal Budgets have been steps in the right direction but are insufficient to make a contribution in keeping with the need as expressed in terms of providing jobs for our rapidly expanding labour force and in meeting competition at home and abroad. During the past four years the Canadian Construction Association has urged the Federal Government and, where applicable, the Provincial Governments, to introduce taxation incentive policies along the following lines:

(a) Increased capital cost allowance and/or investment allowances -- e.g., complete write-offs for industrial plants within any five of their first eight years;

(b) Corporation income tax rate cuts and/or rebates on increased capital investment, production, etc.;

(c) Reclassification of certain "capital"

stimulating capital investment [illegible] of [illegible] in order that the means for economic [illegible] and increased economic [illegible]

5 The [illegible] generally being suggested that [illegible] is introduced [illegible] during capital investment. The [illegible] and [illegible] [illegible] to the association [illegible]

6 The incentive [illegible] [illegible] have been shown [illegible] and as expressed in terms of [illegible] capital-saving labour [illegible] a loan at home and abroad. [illegible] [illegible] and [illegible] national government [illegible] [illegible] the following lines

(a) [illegible] [illegible] [illegible] [illegible]

(b) [illegible] [illegible]

costs such as architects' and consulting engineers' fees for design and supervision work as operating expenses;

(d) Reduction in construction costs by exemption of all construction materials and equipment from sales tax and faster write-offs for construction equipment;

(e) Extension of Federal winter works payroll incentives to similar privately-financed construction projects, and faster write-offs for wintertime projects.

In addition, the Association has long established policies advocating joint action on public works projects in cases where more than one government is involved and the retention of our national housing legislation on a basis that will adequately serve the essential housing market.

7. Inasmuch as monetary and fiscal policies have an extremely close bearing on the size and nature of both the publicly- and privately-financed sections of the construction programme, abrupt changes in these policies can have a very direct and sometimes unsettling effect on the industry. Similarly, the supply of investment funds that is necessary to maintain the large volume of construction takes on correspondingly large proportions. The construction industry is mainly a service industry and consequently the problems of financing the capital outlays have been (or should be) settled by the purchaser of these construction services before the contractor comes into the picture. (An

needs such as difficult [illegible] consulting
[illegible] engineers, [illegible] design and [illegible] supervision
[illegible] works of [illegible] [illegible];

(4) [illegible] in connection with [illegible] [illegible]
[illegible] [illegible]
[illegible] [illegible] real estate tax and [illegible] write
[illegible];

(5) Gathering of [illegible] [illegible] (e.g. [illegible])
[illegible] of [illegible] or private [illegible]
[illegible] property, [illegible]
[illegible] for [illegible] practices.

In addition, the association has long been [illegible] political [illegible] joins in cases where [illegible] government is [illegible] voted and the [illegible] housing [illegible] that [illegible] will [illegible] certain [illegible] needs.

7. [illegible] [illegible] the [illegible] an [illegible] both [illegible] sections of the [illegible] politics [illegible] a [illegible] and [illegible] setting [illegible] of [illegible] large [illegible] cases [illegible] issue [illegible] property [illegible] illuminating the [illegible] of [illegible] [illegible]

important exception exists, of course, in the case of projects initiated by the builder).

8. In so far as public works are concerned, the Association has withheld from advising governments and other public bodies on how they can increase their various levies and thereby obtain more funds to finance their capital investments, but it has made comprehensive recommendations on how they can obtain better value for their construction dollar. It has also been pointed out that tax relief may well encourage business expansion and an ensuing increase in the tax base, thereby bringing to the government in question increased revenues while at the same time reducing the incidence of taxation on the individual taxpayer.

9. With regard to privately-financed construction, it is believed that alternative sources of funds are desirable. Once again, this may relate to government policies such as tax rate cuts and increased capital cost allowances which enable businesses to accumulate more investment capital. It could also relate to a relaxation of the present regulations restricting the lending or investment activities of the chartered banks, trust and insurance companies and other financial institutions. The extension of the National Housing Act to include mortgages on existing houses would be welcome. The financing facilities for the export of goods and services have expanded in recent times but need to be brought into line with those that are available in other countries. (To date, Export Credits Insurance Corporation has yet to insure or finance a

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Canadian contractor on a foreign project). Similarly, it is noted that institutions that are major sources of investment funds elsewhere in the world such as building loan societies and private banks and a secondary mortgage market are still minor features in the Canadian financial scene.

10. Turning to matters with which this Association is more directly familiar, contractors are particularly dependent upon the chartered banks for credit. Loans to contractors as at September 30, 1961, totalled \$345.8 million. Finance companies have become a significant factor of late in the financing of construction equipment. (Approximate total for 1961, \$220 million.) The Industrial Development Bank's loans to contractors totalled less than \$13 million, 1956-1961. Working capital requirements to carry out construction projects are frequently heavy. For example, the investment in construction equipment necessary for engineering projects is such that the value of the plant may exceed the amount of the contract. Investment costs or carrying charges on construction equipment that is either bought or leased are accordingly high. Contractors have a good deal of money tied up in holdbacks, security deposits and receivables. Few construction firms raise capital through the sale of bonds or stocks. Exceedingly keen competition, high income tax rates and inadequate capital cost allowances for construction equipment make difficult the accumulation of surplus funds. (Department of National Revenue taxation statistics show that on average from 25 percent to 30

percent of Canadian construction companies experience a loss on their year's operations).

11. The financing costs experienced by Canadian contractors are heavier than those by U.S. contractors. For example, the latter are able to borrow money at lower rates of interest, purchase their equipment more cheaply, use it as collateral for loans and write it off faster under the terms of U.S. tax regulations. The advantages are quite apparent when Canadian and U.S. contractors bid on the same project.

12. An "undesirable" source of credit in the construction industry exists in the form of prolonged terms of payment for many contractors to suppliers of materials and equipment. Similarly, sub-contractors who are slow in being paid by general and trade contractors in effect provide the latter with working capital if the work has been paid for by the owner. Indeed, some owners or lenders will reduce their own financing expenses by delaying the approval of progress estimates, mortgage advances and final payments. Measures designed to deter fraudulant or premeditated bankruptcies would be helpful in reducing abnormal credit risks.

13. The Association would like to stress that since contractors and supply firms are largely dependent upon the banks for credit, measures that are introduced to reduce the volume of commercial loans have much more impact on the construction industry than on others which may have major alternative sources of funds. Some local bank managers have

interpreted credit curb policies to mean that credit extended to construction firms should be restricted to a percentage of the amount made available in the previous year. The Association contends strongly that contractors should not be subjected to arbitrary decisions of this nature but that the amount of a loan should be based on the merits of the individual applications. Efforts to curb outlays for construction purposes should be made only in the direction of owners.

14. The Association advocates the retention or establishment of "trust provisions" in mechanics' lien legislation whereby the banks obtain equal status with other creditors in the event that a construction company fails. It agrees, however, that there should be a reasonable time limit to the life of the trust provision.

15. A growing practice has been noted in the case of large-scale commercial construction projects whereby the sponsoring financial institution requires that lien rights be waived as a condition or receiving the construction contract. It is felt that contractors and suppliers have their full share of business risks without being asked to surrender the protection afforded by lien laws.

16. The above points are dealt with more fully in the following pages. Additional matters are also mentioned and a summary of recommendations and an appendix conclude the brief.

17. All of which is respectfully submitted.

S.D.C. Chutter, General Manager.

H.R. Montgomery, President

THE CANADIAN CONSTRUCTION ASSOCIATION

18. Organized in 1918, the Canadian Construction Association is an industry-wide and nation-wide association with upwards of 1,200 member firms and 68 regional and local affiliated construction associations which in turn have a combined membership of over 8,000 firms. The membership consists of leading firms of all sizes including general and trade contractors in both building and engineering construction; manufacturers and suppliers of construction materials and equipment; and those providing services to construction firms (insurance, surety bonds, testing, etc.). Most of the construction requiring the services of architects or consulting engineers which is put in place in Canada in any one year is carried out by members of this Association or its Affiliates.

THE CANADIAN CONSTRUCTION PROGRAMME

19. The construction industry is Canada's largest. The annual value of the construction programme has averaged $7 billion since 1957 and has accounted for nearly one-fifth of Canada's gross national product. The annual equivalent of 570,000 full-time jobs and $2½ billion in purchasing power in construction payrolls are provided by this programme. An even greater number of Canadians are employed off-site in manufacturing, transporting and merchandising the $3 3/4 billions of construction materials and equipment required each year.

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19. The construction industry is Canada's largest. The annual value of the construction programme has averaged $7 billion since 1957 and has accounted for nearly one-fifth of Canada's gross national product. The annual equivalent of [illegible] [illegible] $5½ billion in purchasing power in construction payrolls are provided by this programme. A much greater number of Canadians are employed off site in manufacturing, transportation and merchandising the $3½ billion of construction materials and equipment required each

20. Moreover, the construction industry provides the physical means for Canada's economic growth. Completed construction projects generate employment in that they provide the facilities necessary for employment in other segments of the economy, plus the employment connected with their maintenance and servicing. Construction activities take place in all parts of the country and constitute the main industry in most regions. So much of the Canadian economy now relies on the construction programme that any sizeable reduction in construction volume would have widespread adverse effects. Conversely, and more significantly, it is of particular importance that the volume of both privately- and publicly-financed construction be maintained and expanded. In the long run, both of these sectors require a favourable business climate if funds are to be invested in sufficient volume.

21. The main features of the Canadian construction programme are shown in the following tables:

PRIVATE AND PUBLIC CONSTRUCTION INVESTMENT - CANADA

(Millions of Dollars)

	Private	Public	Total
1957	4,448.1	2,572.9	7,021.0
1960	4,227.7	2,656.3	6,884.0
1961	4,340.3	2,699.7	7,040.0
1962 (est.)	4,367.7	3,013.3	7,381.0

Source: Private and Public Investment in Canada
Department of Trade and Commerce

LUE OF CONSTRUCTION WORK PERFORMED BY TYPE OF STRUCTURE

(Thousands of Dollars)

	1957	1960	1961 Prelim.	1962 Est.
IG CONSTRUCTION				
lential	1,813,000	1,913,000	1,951,000	2,046,000
trial	610,670	451,568	402,505	461,352
rcial	656,196	738,127	756,896	758,582
tutional	519,191	615,188	654,847	809,265
	287,468	333,121	320,023	336,344
	3,886,525	4,051,104	4,085,271	4,411,534
RING CONSTRUCTION				
Highway & rome	708,780	830,359	829,997	867,875
Oil	740,481	454,372	565,893	428,413
ric Power	507,554	348,877	408,122	422,342
	1,179,718	1,201,543	1,150,011	1,252,449
	3,136,533	2,835,151	2,954,023	2,971,079
ALUE OF RUCTION	7,023,058	6,886,255	7,039,294	7,382,613

Source: Construction in Canada, D.B.S.

22. The annual physical volume of construction has more than doubled during the post-war period and registered an annual increase until 1958. Not only has the size and complexity of individual projects grown but the programme has also become increasingly important in relation to the gross national product. In 1946 it was 13 percent; in 1957 it was 22 percent. Since then the ratio eased somewhat as the value of the construction programme levelled out but the average for the past decade has been 20 percent. Thus, roughly one out of every five dollars spent in end goods and services has been a construction dollar.

23. The increase in the value of the construction programme, however, has not been steady. In 1956, for instance, there was a rise of 21.6 percent, whereas the increase in 1954 was fractional. Moreover, within the construction programme there have been appreciable fluctuations in the totals for the various main categories and regions. Changes in housing policy, completion of major projects of an engineering construction nature and credit curbs are sample factors in this regard.

24. As has been pointed out in some detail in paragraphs three and four, government outlays and policies at all levels have a very great influence over the size and nature of the construction programme. It is most desirable that monetary and fiscal policies be directed at achieving as steady a rate of economic growth as possible. Fluctuations in the rate of construction do not make for efficiency. It should also

be remembered by those that are responsible for formulating these policies that most construction projects require a good deal of advance planning. As has been said many times, "construction cannot be turned on and off like a tap".

25. It should be noted that contractors have an additional reason for disliking sudden increases in demand that lead to inflationary trends -- the vast majority of construction contracts are on a firm price basis. Under the industry's current surplus capacity conditions, however, a very substantial increase in the volume of work could be undertaken without any particular strain.

INVESTMENT INCENTIVES

26. The fact that the annual rate of business investment for construction and machinery in Canada has fallen by one billion dollars since 1957 points up the urgent need for stimulating this sector of our national development. Furthermore, it is this sector that will be looked to primarily to provide employment opportunities for Canada's rapidly expanding labour force. The overall volume of construction has been retained largely by increases in the public works programme. The latter is now being subjected to cut-backs. Taxation incentives that encourage private spending have the further advantage of reducing the demand for public spending to maintain employment levels.

27. Expenditures for construction by manufacturers

reflect, in the main, new or expanded production facilities. The annual outlay has dropped by over $200 million below the $650 million total recorded in 1957. The Federal Government's Mid-Year Survey of investment intentions for this year contained a figure of $439 million for construction investment by manufacturers. It must be remembered that the total was compiled before the announcement of the emergency measures programme in late June. The cut-backs in the public works programme make it all the more desirable for business capital investment to be encouraged to expand and, indeed, to carry out even the programme that they planned to execute as of last spring.

28. The Association has recommended to the Federal Government that the most effective incentive to businessmen to increase their capital investment would be tax cuts through lower rates and/or rebates based on investment, increased production, etc. Increased capital cost allowances on structures and machinery have also found continuing favour on the part of our members on the basis of the successes experienced both in Canada and in other nations in encouraging the development of new industries and the erection of modern, competitive facilities by means of faster investment write-offs. In addition, such arrangements are flexible and do not adversely affect government revenues in the long run. Indeed, it has been contended that they will increase the Government's tax revenues inasmuch as new tax-paying business facilities will not be established unless some special incentives are

efficient, in the main, but of outmoded production facilities. The general policy has brought by over [illegible] million below the $650 million [illegible] The Federal Government's Military [illegible] Expenditure for that year envisaged a figure of [illegible] million [illegible] must be [illegible] [illegible] programme in [illegible]. The [illegible] works programme [illegible] [illegible] [illegible], to [illegible] they planned to operate as of last January.

19. The [illegible] has [illegible] government [illegible] to increase this [illegible] through lower [illegible] and/or [illegible] [illegible] increased [illegible] allowances on [illegible] have also [illegible] on the basis of [illegible] [illegible] in [illegible] development of new industries and the [illegible] competitive facilities by means of [illegible] [illegible] in the long run. [illegible] will [illegible]

provided to investors. Faster write-offs are also necessary to cover inflated replacement costs.

29. The Association has commended the Federal Government for its recognition of the desirability of investment incentives in Canada's taxation policy and for its introduction of several measures in this field in recent Federal Budgets. The incentives provided to date are steps in the right direction but from the point of view of general economic expansion, the CCA recommends consideration of increased capital cost allowances in the business investment sector covering all new fixed assets generally and that capital outlays for industrial plants specifically may be written off entirely in any five of the initial eight-year period.

30. The Association has also pointed out that not only do other leading nations provide business with more generous capital cost allowances than is the case in Canada, but several of them also offer investment allowances. Inasmuch as retained earnings are usually the largest single source of funds for the expansion of production facilities, it is vital that Canadian industrialists be afforded opportunities through tax rates and capital cost and investment allowances as least as favourable as those available in comparable countries. Whereas some industries today are experiencing surplus capacity conditions, there are others that have scope for expansion. Also, the provision of more modern facilities may well make companies more competitive.

31. Capital investment would be further

provided to investors. Faster write offs are also necessary to cover inflated replacement costs.

20) The Association has urged the Federal government [illegible] recognition of the [illegible] of investment incentives in Canada's taxation policy [illegible] the introduction of several measures [illegible] the recent federal budgets. The incentives provided [illegible] are steps in the right direction but from the point of view of general economic interest, the [illegible] recommends reinstatement of increased capital cost allowances in the business investment sector covering all new fixed assets generally and that capital outlays for industrial plants specifically have a write-off [illegible] entirely in any five of the first [illegible] year period.

21) The Association has also pointed out that not only do other leading nations provide taxpayers [illegible] more generous capital cost allowances than is the case in Canada, but several of them also offer investment allowances. Inasmuch as retained earnings are usually the largest single source of funds for the expansion of production facilities, it is vital that Canadian industrialists be afforded opportunities to [illegible] plant and capital equipment investment programs at least as favourable as those available to foreign competitors. [illegible] industries today are [illegible] surplus capacity conditions, there [illegible] less scope [illegible]. Also, the provision of more generous [illegible] would [illegible] encourage more [illegible]

Capital investment would be [illegible]

encouraged if certain cost factors now capitalized were classified as operating expenses and therefore subject to the equivalent of a 100 percent capital cost allowance. One example in this regard is the professional fees related to the design and supervision work involved in construction projects when the services of outside consultants are used. Such a provision would have the further advantage of encouraging owners to have their design work prepared in advance.

32. It is also pointed out that the application of sales tax to construction items constitutes a tax on capital and therefore is a "dis-incentive" to investment. The combined effect in cases where the Federal and a Provincial sales tax applies ranges from 11 percent to 17 percent of purchase price to the contractor. This, plus related overhead expenses, becomes a capital cost.

33. The Federal Government has exempted the majority of construction items from its sales tax but there are many conspicuous exceptions. For instance, whereas most industries benefit from a standard exemption for their production equipment, the construction industry does not in the case of either the federal or the provincial sales taxes. (ironically, exemptions <u>are</u> provided to governments, thereby tending to encourage public bodies to buy construction equipment to carry out their own construction work. If contractors engaged on public projects were afforded the same exemptions, the governments would not lose revenue and private contractors would have a more

encouraged if certain cost factors [illegible] were

classified as contingent expenses and therefore subje-

[illegible] of a [illegible] general [illegible]

[illegible]. [illegible] in this [illegible] is the professio-

[illegible] related to the design and supervision [illegible]

[illegible] in [illegible] projects [illegible]

[illegible] contingent [illegible]. [illegible] a [illegible] would

[illegible] the [illegible] of [illegible]

[illegible] in advance.

2. It is also pointed [illegible] that [illegible]

of sales tax to construction [illegible] a [illegible]

[illegible] capital [illegible] to a [illegible]

[illegible]. The [illegible] effect in cases where [illegible]

[illegible] a [illegible] sales [illegible] ranges from

[illegible] percent to [illegible] percent of purchase price to the

contractor. This, plus [illegible] overhead expenses

becomes a capital cost.

3. The Federal Government has exempted the

majority of construction items from its sales tax [illegible]

there are many [illegible] exceptions. [illegible]

[illegible] items [illegible] a [illegible]

[illegible] the [illegible]

[illegible] factory [illegible] of [illegible]

[illegible] of the [illegible] sales taxes. [illegible]

[illegible] are provincial [illegible] governments, [illegible]

[illegible] as [illegible] cases [illegible]

[illegible]

[illegible] engaged on public [illegible]

[illegible] governments [illegible]

equitable opportunity of carrying out their normal construction functions and, incidentally, of increasing their base for income tax.)

34. For many years the Association has made representations advocating the complete exemption of construction items from the Federal sales tax. Specific recommendations have been made concerning such items as electrical materials, nails, air conditioning equipment, safety helmets and tools which still remain subject to the 11 percent tax. Provincial Governments and, in Quebec, Municipal Governments have been even far less inclined to exempt construction items from their sales taxes. Indeed, the impact of the latter on construction costs which have to be borne by the purchaser of construction services is usually greater than that of the federal sales tax. (Only Alberta and Manitoba do not have sales taxes.) It has been noted that several of the Commonwealth Nations in the West Indies offer sales tax exemptions for materials and equipment imported to build business facilities. Widespread recognition of this principle in Canada is strongly recommended. The exemption of construction items from sales tax would likely means an average investment saving of at least three percent.

35. Within the construction industry itself, the present capital cost allowances for construction equipment are less generous than are available to contractors in leading countries in the Western World. This gap was recently widened further by the introduction of a new system in the USA whereby contractors

may obtain even faster write-offs of their equipment. Prior to 1949 such factors as multiple-shift operations were taken into consideration in Canada in setting the depreciation rate for taxation purposes but no similar adjustment is now permitted. It is most desirable that contractors be encouraged to invest in new equipment, the main medium through which improved efficiency can be achieved. Accordingly it is recommended that contractors be permitted to have a capital cost allowance rate of a 50 percent on the diminishing balance basis for normal operations. Small items with a life expectancy of one year or less should be given a 100 percent rate and complete write-offs allowed on abandoned equipment in isolated areas.

36. A further hardship currently being experienced by contractors in investing in new equipment is that even that which by tariff definition is of a class or kind not made in Canada is subject to a tariff surcharge. Imported repair parts in the same category also bear the impost although those for automobiles are exempted.

37. The Federal Government and, to varying extents, the Provincial Governments have offered special incentives to Municipal Governments designed to encourage them to carry out more of their construction projects in the winter months. These incentives have been increasingly effective. The Canadian Construction Association and the other national organizations represented on the National Joint Committee on Wintertime Construction have urged that the principle of

[illegible] obtain even faster write-offs of their equipment. Prior to 1949 such factors as multiple-shift operations were taken into consideration in Canada in setting the depreciation rate for taxation purposes but no similar adjustment is now permitted. It is most desirable that contractors be encouraged to invest in new equipment, the main means through which improved efficiency can be achieved. Accordingly it is recommended that contractors be permitted to have a capital cost allowance rate of a [illegible] percent on the diminishing balance basis for normal operations. Small items with a life expectancy of one year or less should be given a 100 percent rate and complete write-offs allowed on abandoned equipment in isolated areas.

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The Federal Government and, to varying extent, the Provincial Governments have offered special inducements to [illegible] [illegible] [illegible] [illegible] to carry out more of their construction projects in the winter months. These incentives have been [illegible] [illegible] [illegible]. The Canadian [illegible] that the principle of

incentives be extended to privately-financed projects as part of the campaign designed to increase the volume of wintertime construction and employment on the grounds that the offering of similar incentives in the "private works" programme could be relied upon to bring even greater results. Examples include the extension of the same incentive to builders as is now available to municipalities with reference to the wintertime installation of services that later become part of the municipal system; the availability of accelerated capital cost allowances based on wintertime payrolls on construction projects wholly or substantially built during the winter months or on the first year's operations of long-term projects started in the fall or winter; the exemption of items used to facilitate wintertime construction from the Federal Sales Tax (see above) and classifying them as operating rather than capital expenses; and special incentives related to the mortgage provisions of winter-built housing units.

38. Outlays for worthwhile, well-planned public works projects are very definitely in the "investment" category and can earn rich dividends. Many public projects are financed by two or three levels of governments. The availability of construction and planning grants, low interest loans, etc., by a senior government frequently supplies the incentive to another government to proceed with a project. The Association has accordingly urged joint action and advance consultation in the planning, financing and construction of such projects in order that they will not be delayed

as part of the campaign designed to increase the volume of [illegible] construction and employment in the private [illegible] the offering of similar incentives in the [illegible] [illegible] programme could be extended down to other [illegible] sector [illegible]. Examples include the [illegible] as an incentive to builders at 16 [illegible] municipalities with reference to the [illegible] [illegible] of services that [illegible] [illegible] [illegible] system; the availability of accelerated depreciation allowances based on [illegible] payable on [illegible] [illegible] projects [illegible] [illegible] months of the first year's operation of long-term projects [illegible] the [illegible] of whatever the [illegible] of [illegible] to [illegible] [illegible] from the [illegible] sales tax (see above) and [illegible] them as operating rather than capital [illegible] and special incentives related to the [illegible] provisions of [illegible] housing units.

(5) [illegible] for [illegible], well-planned public works projects are very [illegible] in the [illegible] [illegible] and [illegible]. Many [illegible] are financed by [illegible] of [illegible] [illegible]. [illegible] availability of [illegible] [illegible], low interest [illegible], [illegible] [illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

or made unduly costly because of lack of co-ordination.

39. Incentives play a most important role in the execution of many types of public works projects. Schools, roads, anti-pollution controls, winter works, hospitals and urban redevelopment projects are examples. The points that the Association wishes to stress in this regard are the need for agreement between the various levels of government in so far as many public projects are concerned and the need for the widespread extension of the investment incentive principle to privately-financed projects in order to encourage their initiation.

SOURCES OF FUNDS FOR CONSTRUCTION PROJECTS

40. As was pointed out in paragraph three, a high percentage of the Canadian construction programme is financed with public funds. The Federal Government alone has over twenty departments and agencies which administer construction contracts. Provincial, county and municipal governments, commissions, boards and public enterprises are also major buyers of construction services. Even foreign governments have appreciable construction outlays in Canada -- notably in defence projects and to a minor extent through the construction of embassies, etc. Projects in border zones such as the St. Lawrence Seaway and Power Project and international bridges and tunnels have been carried out on a joint basis.

41. The sources of funds for these public expenditures for construction services are normally tax

or made unduly costly because of lack of co-ordination.

39. Incentives play a most important role in the execution of many types of public works projects. Sewers, roads, anti pollution controls, water works, hospitals and urban redevelopment projects are examples. The points that the Association wishes to stress in this regard are the need for agreement between the various levels of government in so far as many public projects are concerned and the need for the widest possible extension of the investment incentive principle to privately financed projects in order to encourage their initiation.

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41. The sources of funds for large public expenditures for construction purposes are normally tax

revenues of various kinds and the proceeds of bond issues and other securities. Grants from a senior government or charitable institution may also be an important factor. Then again, projects may be financed with loans from a senior government which is in a position to borrow money at a lower rate of interest or other more attractive terms.

42. Some public projects are being financed on a leaseback basis and others -- especially bridges, tunnels and arterial highways -- many have a toll levied on those using them. Public parking lots or garages similarly charge only those who are using their facilities. Members of the construction industry help to provide temporary financing to public bodies in those cases where there are lengthy delays in the processing of payments and the release of holdbacks and where security deposits are required in the form of certified cheques.

43. The Association will not attempt to comment on the adequacy or otherwise of the taxing and borrowing powers of our governments at different levels to finance their various construction projects other than to state that many have been forced to scale down their capital investment programmes from time to time and that a more widespread availability of low interest loans to municipalities to finance municipal services is especially desirable.

44. Our industry has a twofold interest to public projects:

(a) Governments constitute the industry's

[illegible]

tances and other securities. Funds from a senior government or charitable institutions may also be an important factor. Then again, projects may be financed with loans from a senior government which is in a position to borrow money at a lower rate of interest or other more attractive terms.

42. Some public projects are being financed on a lease-back basis and others -- especially bridges, tunnels and arterial highways -- may have a toll charged to those using them. Parking buildings, lots or garages similarly charge only those who are using these facilities. Members of the construction industry help to provide temporary financing to public bodies in those cases where there are lengthy delays in the processing of payments and the release of holdbacks and where security deposits are required in the form of [illegible].

43. The association will not attempt to comment on the adequacy or otherwise of the taxing and borrowing powers of our governments at different levels. [illegible] to state that many have been forced to cut down their capital investment programmes from time to time and that a more widespread availability of low interest loans to municipalities to finance municipal facilities is especially desirable.

44. Our industry has a special interest in [illegible]

[illegible]

a) [illegible] construction [illegible]

largest customer;

(b) Firms engaged in construction operations are also taxpayers and they wish to see that the greatest possible value is obtained for the public works dollar.

Much of the Association's brief to the Royal Commission on Government Organization was accordingly devoted to recommendations designed to bring about greater economies and efficiency through standardization and simplification of procedures, adherence to approved tendering and contract administration practices, consolidation of federal construction operations and comprehensive advance planning.

45. The Federal Government sets, in general, a very high standard in the administration of construction contracts but the size of its construction programme is such that further improvements could lead to considerable savings. The same is true on the provincial and local government levels where there is a greater tendency to follow the outdated and uneconomical practice of using day labour rather than benefitting from the intense competition in the industry. Government Departments at all levels with the largest volumes of work follow the contract method for the simple and significant reason that they cannot afford to do so.

46. Privately-financed projects have a variety of sources of funds -- loans, retained earnings, the sale of stocks and bonds, mortgages, foreign investments, etc. Short-term financing may also be needed

to meet progress payments during construction. A growing number of enterprises have found that there are tax advantages for them in leaseback arrangements, perhaps with an option to buy at a later date. Residential construction is a special case in that the source of funds of a good many mortgages is the Federal Government.

47. Once again, the Association will leave to those directly affected to comment on the adequacy or otherwise of these sources of funds and of the services of the financial institutions, and of the impact of monetary and fiscal policies on their investment activities. It is believed that those wishing to make a capital investment should be provided with sufficient taxation incentives to make it worthwhile and, if external financing is necessary, the security markets and lending institutions should provide at least comparable facilities to those that are available in other countries.

48. Mention should also be made of some examples in which the traditional source of funds has changed from public to private and vice versa. A growing number of municipalities have transferred their responsibility of providing municipal assessments to the developer of a new area as a condition of being permitted to proceed. In the case of housing, the transfer means that if the homeowner has a mortgage its amount and that of the down payment and interest charges increase accordingly (the individual cannot ordinarily loan at the same rate as a municipality).

to meet progress payments during construction. A growing number of [illegible] have found that [illegible] tax advantages for them in [illegible] purchase with an option to buy at a later date. [illegible] capital construction is a [illegible] on [illegible] source of funds of a [illegible] to the [illegible]

17. Thus again, the Association will [illegible] these difficulties [illegible] to comment on the [illegible] operation of these sources of funds and of the [illegible] of the financial institutions and of the impact of monetary and fiscal policies on their investment activities. It is believed that those wishing to make a capital investment should be provided with [illegible]

[illegible]

if [illegible] financing is necessary, the [illegible] markets and lending institutions should provide at least comparable facilities to those that are available in other countries.

[illegible] Mention should also be made of some examples in which the municipalities' control of funds has changed from [illegible] to [illegible] voted. A growing number of municipalities have transferred their responsibility of providing municipal assessments to the developer of a new area as a condition of being [illegible] to proceed. In the case of [illegible] the [illegible] it [illegible] a mortgage [illegible] the cost of the loan payment [illegible] [illegible]

On the other hand, Nova Scotia Industrial Estates Ltd., a provincial Crown Corporation, has assumed the responsibility of building commercial and industrial buildings and then leasing them to private firms.

SOURCES OF FUNDS FOR CONSTRUCTION COMPANIES

49. Incorporated construction companies are mainly private, closely-held firms. Many of the smaller concerns operate as partnerships or sole proprietorships. Relatively little use is made of the security markets as a means of raising funds. Many firms start business with a bank loan backed by a personal guarantee. Very few contracting firms have their stock listed. Bonds have been marketed but such instances are rare. Factors cited in this regard are the viewpoint of investors that construction is a risky type of venture and profits are often re-invested in the company because of equipment and working capital requirements related to business expansion; that the "value" of a construction company is frequently directly assocated with the identity of a few key personnel; and that contractors prefer to retain control of their operations.

50. Construction companies engaged in contract construction require short-term funds for the payment of material supplies, payrolls and other operating expenses; and longer term funds for capital outlays not financed from earnings or current funds. The amount and cost of equipment used by certain types of contractor is considerable. Investment in buildings for the

On the other hand, Nova [illegible]
a provincial crown Corporation, has assumed the responsibility of building commercial and industrial buildings and then leasing them to private firms.

SOURCES OF FUNDS FOR CONSTRUCTION COMPANIES

13. Incorporated construction companies are mainly private, closely-held firms. Many of the smaller concerns operate as partnerships or sole proprietorships. Relatively little use is made of the security markets as a means of raising funds. Few firms start business with a bank loan backed by a personal guarantee. Very few contracting firms have their stock listed. Bonds have been marketed but such instances are rare. Factors cited in this regard are the viewpoint of investors that construction is a risky type of venture and profits are often re-invested in the company because of equipment and working capital requirements related to business expansion; that the "value" of a construction company is frequently closely associated with the identity of a few key personnel, and that owners prefer to retain control of their operations.

14. Construction companies [illegible] construction require [illegible] funds [illegible] the purchase of material supplies, payrolls and other contract expenses and [illegible] are derived from earnings [illegible]. The [illegible] and cost of equipment used [illegible] is [illegible]. Investment [illegible]

operation of contracting businesses is relatively light. Road builders and other heavy construction firms and structural steel and, to a lesser extent, pre-stressed concrete and laminated timber contractors are among those with the heaviest investments in equipment and buildings.

51. Builders who erect structures for sale, rent or their own ownership are in need of more long-term funds for their "finished goods inventory" and may also require extra short-term funds to cover "work in progress". They may also have a sizeable investment in land. Some firms engage in both contract construction and speculative work. Then again, firms providing "package plans" may be working on a contract basis but also supply the land and/or financing and accordingly require additional funds.

52. In so far as the financial institutions are concerned, construction firms rely almost exclusively on the chartered banks for their short-term financing. The volume of bank loans in this regard has risen over the years roughly in accordance with the increase in the physical volume of construction.

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TABLE III

CHARTERED BANK LOANS TO CONSTRUCTION CONTRACTORS IN CANADA 1934-61

(Millions of dollars)

As at October 31		As at September 30	
1934	21.8	1947	93.9
1935	24.1	1948	103.6
1936	23.7	1949	113.3
1937	32.1	1950	122.7
1938	36.0	1951	151.8
1939	40.6	1952	158.7
1940	45.3	1953	175.0
1941	43.7	1954	200.8
1942	45.5	1955	273.2
1943	44.0	1956	343.2
1944	38.5	1957	299.7
1945	47.4	1958	275.1
1946	71.7	1959	357.6
		1960	339.5
		1961	345.8

Source: Bank of Canada

It will be noted that the above figures do not reflect the total amount of bank credit extended during the year and that those for the years 1934-46 are for a time of the year when the volume of construction was tapering off.

53. Canadian chartered banks are not permitted to accept chattel mortgages on construction equipment.

(The opposite is true in the USA and several other western countries). Finance companies which specialize in the financing of industrial equipment have fulfilled this function in recent years to an ever increasing extent.

TABLE IV

COMMERCIAL AND INDUSTRIAL FINANCING BY SALES FINANCE COMPANIES END OF 1953, 1957, 1961

(Thousands of dollars)

Source	Total	*Construction (Est. 55% of total)
	1953	
# FCSFC	178,642	98,254
DBS	184,000	101,200
	1957	
# FCSFC	273,577	150,467
DBS	288,000	158,400
	1961	
# FCSFC	407,901	224,345
DBS	401,000	220,550

* There are no figures available for construction industry as such. However, it is felt that 55%-60% of total is a safe estimate.

\# Federated Council of Sales Finance Companies.

54. The Industrial Development Bank has increased its lending operations to construction companies in recent years, mainly with regard to equipment purchases.

To date, however, the volume of loans has been relatively small compared to those of banks and finance companies.

TABLE V

INDUSTRIAL DEVELOPMENT BANK LOANS TO CONSTRUCTION INDUSTRY

Year	No.	Amount (Thousands of dollars)	Total Expenditure for Construction Equipment
1956	4	285	170,000
1957	12	1,002	151,000
1958	33	1,072	109,000
1959	35	2,135	129,000
1960	60	2,454	116,000
1961	143	5,957	118,000
TOTAL		12,905	793,000

Source: I.D.B.

Source: Investment Outlook Private & Public

Department of Trade and Commerce

"RoyNat Ltd." is a new, similar source of funds.

55. Contractors ordinarily can obtain the necessary financing on overseas projects where payment to the contractor is guaranteed (e.g. Colombo Plan and World Bank-financed projects.) Export Credits Insurance coverage would also normally make contractors eligible for bank financing services. To date, however, such policies have not been issued and long-term loans have not been extended on construction

projects being executed by Canadian contractors in other countries.

56. The construction companies engaged in carrying out their own developments rely heavily on mortgages held by insurance companies, trust companies, etc., for their additional financing requirements. Residential mortgages were also invested in by the chartered banks during a recent period when they were permitted to do so following an amendment to the Bank Act and when the NHA lending rate did not exceed the bank rate. An appreciable number of large scale residential, industrial and commercial construction developments have been financed by foreign investors.

57. Other sources of funds to construction companies which augment their own resources include government loans or subsidies (e.g. limited dividend housing loans, storage facilities subsidies, etc.); owners' financing for cost plus fee contracts in cases where their operations are such that they can borrow money or purchase equipment and materials more cheaply than contractors; and outside firms, either Canadian or foreign, who "buy into" construction companies.

58. Internal sources of funds for construction companies include earnings, capital cost allowances, trade credit and, in some instances, holdbacks. Trade credit tends to become particularly extensive if bank credit is "tight" and if the industry is working well below its capacity with the result that there is extremely intense competition and payments tend to be slow.

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[illegible]

59. The subject of "credit policies" was judged to be of such widespread concern in the industry that it was selected above all others for a Forum Discussion at the Association's annual meeting last February. The viewpoints of general and trade contractors, material suppliers, equipment dealers, chartered banks, finance companies and surety firms were expressly sought in this regard.

60. Their statements were mainly based on current conditions in which the construction industry is working well below its capacity and all of the suppliers of credit (the banks included) are popularly blamed for being indiscriminate in the extension of credit. It is contended that this in turn enables more firms to establish or expand, increases the competition for the available work by inexperienced firms and thereby contributes to the industry's ills. A different complaint is expressed in times when the industry experiences shortages and monetary restrictions are imposed to offset inflationary tendencies.

61. The Association would like to stress that since contractors and supply firms are largely dependent upon the banks for credit, measures that are introduced to reduce the volume of commercial loans have much more impact on the construction industry than on others which may have major alternative sources of funds. Some local bank managers have interpreted credit curb policies to mean that credit extended to construction firms should be restricted to a percentage of the amount made available in the previous year. The Association

contends strongly that contractors should not be subjected to arbitrary decisions of this nature but that the amount of a loan should be based on the merits of the individual applications. Efforts to curb outlays for construction purposes should be made only in the direction of owners. Once a construction project has been financed, the contractor should be granted the amount of credit required for the job consistent with his credit rating; otherwise the cost of the work may well be increased unnecessarily. In summary, it is believed that the chartered banks should carefully screen contractors before extending credit and treat them on an individual basis in times of credit shortage rather than apply uniform cut-backs.

CHARTERED BANKS' LENDING POWERS

62. The Association was specifically asked to comment on "the arguments for and against broadening the banks' lending powers." The latter presumably contemplates the making of loans based on the security of mortgages on equipment, buildings and other fixed assets and an increase in the bank rate to permit investment in residential mortgages.

63. As has been mentioned, banks engage in such activities in the USA and it would seem that the chartered banks in Canada have all attained a size and maturity that would enable them to make decisions as to the merits of such loans without undue risks to their depositors.

64. From the construction industry's standpoint,

Frank Clark

contends strongly that contractors should not be subjected to arbitrary decisions of this nature but that the amount of a loan should be based on the merits of the individual applications. Advances to such borrowers for construction purposes should be made only in the direction of owners. Once a construction project has been financed, the contractor should be granted the amount of credit required for the job concerned, with his credit rating; otherwise the cost of the work may well be increased unnecessarily. In summary, it is believed that the chartered banks should [illegible] larger contractors before curtailing credit and treat them on an individual basis in times of credit stringency rather than apply uniform cut-backs.

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64. From the contractor's point of view a stable [illegible]

it would be beneficial in that it is presumed that such loans would be made at a lower interest rate than is now available from other financial institutions, even if some increase in the present bank rate were permitted. In practice the banks might be more selective in the financing of, for example, construction equipment and this in turn would tend to give those firms with good prospects something of a competitive edge in their financing costs. This in turn might well have a stabilizing effect in the industry. (IDB loans in this category, for example, are carefully screened and enjoy an attractive interest rate.) Moreover, the entry of the banks into these fields would also seem to benefit the buyers of construction by providing them with an alternative source of funds.

65. On the other hand, the views have been expressed that entry of the banks into these new lending activities might require them to curtail their role as lenders in other fields or to encourage them to do so because of the higher interest rate than may be available. Inasmuch as the construction industry relies so heavily on the banks, the disadvantages might well out-weigh the advantages. Even if this situation did not materialize, the proposed change would tend to make construction companies even more dependent upon the banks and therefore even more vulnerable to their policies or decisions. There is a prevalent opinion in our industry that too many of these decisions are already made by those who are not personally familiar with the conditions faced by a contractor at a given

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time. The gradual reduction in the number of chartered banks has had a tendency to restrict the scope for alternative banking arrangements available to members of the industry.

66. In summary, there is a strong body of opinion in the industry that feels that the general availability of credit in its various forms enables the establishment or expansion of construction companies with altogether insufficient personal investment and/or experience. In practice, many firms are now not even using the line of credit available to them at their bank. The further extension of credit facilities at the banks, along the suggested lines, only holds out considerable attraction if it is accompanied by a reduction in the financing costs and more selective approval of loans than are now available and an avoidance of the other possible adverse accompanying developments mentioned above. Most of these matters are outside of the competence of the Association and it is therefore hoped that the Royal Commission will give this subject particular scrutiny from the standpoint of the construction industry and its clients.

67. Similarly, as long as there are adequate, alternative sources of funds for residential mortgages, it is not suggested that the bank rate should be increased in order to encourage the chartered banks to participate in this activity. However, it is anticipated that the demand for housing will increase substantially. If the other lending institutions and the Federal Government are unable under such circumstances to meet

term. The gradual reduction in the number of chartered banks has had a tendency to restrict the scope for alternative banking arrangements available to members of the community.

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the demand for NHA loans satisfactorily, and if the bank rate is not the same or greater than the current market rate for residential mortgages, the Association recommends that the matter be reviewed. The degree to which bank funds are readily available for their usual functions in other fields is also an important consideration. Perhaps exceptions could be made to the current bank rate in the case of loans secured by a mortgage, whether it be industrial, commercial or residential in nature.

DOWN PAYMENTS FOR HOUSING MORTGAGES

68. In addition to the interest rates applied to residential mortgages, the down payment requirements are also of great importance in determining whether or not potential homeowners can finance the purchase of a house and, in turn, mortgage funds become available to the industry. In this regard it is noted that down payment requirements for NHA loans are also more onerous than is the case in the USA. A comparison of the size of loans available in the two countries is as follows:

NHA, Canada	FHA, United States
95% of first $12,000	97% of first $15,000
70% of rest	90% of next $5,000
Maximum Loan $14,900 (4 bedroom)	75% of the rest
	Maximum Loan $25,000

69. Moreover, the purchase of older houses under the FHA has long been a part of the US house financing scene, whereas in Canada NHA mortgages are only available

on new units. The Association has advocated for a good many years that NHA mortgages be made available for existing homes as a further means of increasing opportunities for home ownership, should the demand for mortgages for new homes not hold up or should the supply of funds otherwise permit this new programme. The greater balance between the supply and demand for new homes and the increased relative availability of mortgage funds indicates that it is timely to give this proposal serious consideration. This arrangement in the United States enables trade-in transactions at modest interest rates, whereas in Canada the purchase of an existing house involves a large down payment or reliance on expensive second or third mortgages. The market for new housing depends to a significant extent on the ability of present homeowners to sell their houses and upgrade themselves without financing problems. Mortgage re-financing assistance on the sale of older houses will become increasingly important as the years go by.

TRADE CREDIT

70. As has been mentioned, heavy use is made of trade credit in the construction industry that is extended by manufacturers, wholesalers, equipment distributors and materials suppliers. A good deal of this trade credit is in turn made possible by the extension of bank credit. A builders' supply house, for example, may have a fair number of 90-day accounts (or even longer) because he can obtain short-term

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working capital from his bank in addition to the trade credit he obtains from his sources of supply. Construction operations are often extremely complex. A typical major building project would have a general contractor, thirty or more sub-contractors, half a dozen sub-sub-contractors, fifty major suppliers and literally thousands of different materials involved. Most of their activities and transactions are based extensively on credit.

71. The latter serves another important function in that it facilitates a levelling out of the seasonal fluctuations in construction work. For example, a contractor may well be encouraged to do more of his work in the winter months by the fact that payment on the materials used can be deferred through the use of trade credit. A more level volume of construction activity provides production and storage economies to the manufacturer and similar benefits down the line to the contractor.

72. On the other hand, the generous extension of trade credit during times of excess capacity and intense competition in the industry poses serious problems. Firms who pay their bills promptly contend that they are, by so doing, helping to maintain in business their tardy competitors who, in many cases, are the ones submitting uneconomically low bids. Sub-contractors and suppliers apparently give the same quotations and discounts in most instances to practically all of their customers. Moreover, in the event of a bankruptcy, a large number of firms are affected.

[illegible]

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73. The incidence of bankruptcies in the construction industry is high. The Association noted in a brief to the Minister of Justice earlier this year that from 1956 to 1961 Construction exceeded Manufacturing in total number of bankruptcies each year, and that higher total liabilities were recorded in 1960 and 1961 as well. In 1960, for example, there were 604 construction bankruptcies with a total of $31 million in liabilities, compared to 456 manufacturing bankruptcies with a total of $22.6 million in liabilities. A CCA survey indicated that in addition to the basic remedies of better management and better credit policies, amendments to our legislation were desirable which were designed to prevent fraudulent bankruptcies and the too easy re-entry of bankrupts into business. The Association recommends that:

(a) there be direct court action by the Crown (rather than leaving prosecution appeals to the trustee up to the creditors);

(b) every bankruptcy be required by law to be investigated fully by a court-appointed public accountant;

(c) all merchandise sold to a bankrupt within four months of the bankruptcy go into a common pool of any and all tangible assets of the bankrupt, to be shared by all creditors;

(d) the discharge of bankrupts be administered more stringently.

It is believed that the above measures would do much to

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It is believed that the above measures would do much to

reduce abnormal credit risks.

MECHANICS' LIENS

74. The risks connected to the payment of accounts receivable in the construction industry were partly the reason for the extension of mechanics' lien legislation to cover the supply of materials as well as workmen's wages. In several provinces "trust provisions" have been incorporated in the lien legislation whereby holdback moneys are deemed to be trust funds to the appropriate sub-contractors and suppliers after any statutory payments are deducted. The same principle should apply to non-lienable projects.

75. The Association advocates the retention or establishment of "trust provisions" in mechanics' lien legislation whereby the banks obtain equal status with other creditors in the event that a construction company fails. It agrees, however, that there should be a reasonable time limit to the life of the trust provision.

76. The CCA similarly opposes waivers of liens. A growing practice has been noted in the case of large-scale commercial construction projects whereby the sponsoring financial institution requires that lien rights be waived as a condition of receiving the construction contract. It is felt that contractors and suppliers have their full share of business risks without being asked to surrender the protection afforded by lien laws.

FORIGN PROJECT FINANCING

77. As has been pointed out in paragraph 55, the facilities of Export Credits Insurance Corporation have not as yet been of practicable use to Canadian contractors. The underlying Act was amended at the request of the Association to provide insurance coverage to the export of construction services but this provision has been inoperative. The Corporation requires full details that are often not available to the contractor at the time of early negotiation with a foreign client. Moreover, the prerequisite of a substantial Canadian labour and/or materials component in the contract amount is usually not possible. Similarly, the tie-in of the export of Canadian capital goods with long-term loans has to date resulted in a lack of applications. The Association appreciates the desire of the Federal Government to relate the operations of export credits insurance and long-term loans to Canadian employment but submits that the earning of foreign exchange is another worthy objective in the national interest. The financing of foreign construction projects is often a key factor in the selection of a contractor. Other nations provide facilities that enable their contractors to compete in this field without employment or supply of materials and equipment requirements. It is recommended that similar arrangements be made available in Canada's financial system to contractors wishing to work abroad.

SUMMARY OF RECOMMENDATIONS

1. The introduction of investment incentives in

[illegible]

77. As has been pointed out in paragraph 55, the facilities of Export Credits Insurance Corporation have not as yet been of practicable use to Canadian consultants. The underlying Act was amended at the request of the Association to provide insurance coverage to the export of consultation services but this provision has been inoperative. The Corporation requires full details that are often not available to the consultant at the time of early negotiation with a foreign client. Moreover, the prerequisite of a substantial Canadian content of materials component in the contract amount is usually not possible. [illegible] the [illegible] of the [illegible] of Canadian capital goods with long-term loans has to date resulted in a [illegible] of applications. The Association appreciates the desire of the Federal Government to restrict the operations of export credits insurance and long-term loans to Canadian employment but [illegible] that the [illegible] of foreign [illegible] is [illegible] the initiative in the [illegible] projects. The [illegible] of foreign consultation [illegible] is often a key factor in the selection of a [illegible]. [illegible] facilities [illegible] to [illegible] consultants to [illegible] in this field without [illegible] of supply of materials and equipment [illegible]. It is recommended that [illegible] be made available [illegible] Canada's [illegible] of consultants [illegible] work [illegible]

[illegible]

the form of

(a) increased capital cost allowances and/or investment allowances;

(b) corporation income tax cuts and/or rebates based on increased capital investment, production, etc.;

(c) reclassification of certain "capital" costs as operating expenses;

(d) reduction of capital costs by the exemption of construction items from sales tax and faster write-offs for construction equipment;

(e) extension of the incentive principle to privately-financed wintertime construction projects;

(f) extension of NHA provisions to include mortgages on existing houses and loans for municipal services in addition to those now available for sewerage systems.

2. Administration of monetary and fiscal policies so as to avoid abrupt changes in the volume of construction.

3. Application of credit controls to buyers of construction services rather than to contractors.

4. Advance planning and, where necessary, joint consultation by governments.

5. Adherence by public bodies to approved tendering practices in order to effect economies in their construction programmes.

6. Study by the Royal Commission of the proposed relaxation of regulations restricting the lending or investment activities of banks, etc., with particular reference to the construction industry's operations.

7. Extension of Export Credits Insurance Corporation policies to cover the export of construction services without regard to Canadian employment component.

8. Expediting of approval of progress estimates, mortgage advances and final payments.

9. Amendment of Bankruptcy Act to deter fraudulent bankruptcies and related abnormal credit risks.

10. Retention or establishment of "trust provisions" in mechanics' lien legislation; application of holdback principle to non-lienable projects; and elimination of "waiver of lien" clauses.

- - - -

APPENDIX "A"

CANADIAN TAXATION INVESTMENT INCENTIVES

The Canadian Construction Association has long maintained that income tax incentives particularly in the form of accelerated depreciation are vital to industrial and commercial construction in Canada. Approximately one-third of all construction carried on in this country falls into this category.

The Federal Government and the business community have had considerable experience with special depreciation policies which have been brought into being to either stimulate or discourage capital expenditures. During World War II, accelerated write-offs were used to encourage industrial expansion. The same device was followed successfully for the transition period from war to peace. Despite the policy of confining the double depreciation concession to industrial investment of specified types, a total of $1.4 billion was approved for expenditure from November 1944 to March 1947. In 1951 accelerated write-offs were again introduced for plant expansion of a specialized nature for defence production.

On the other hand, the Federal Government has not hesitated to use deferred depreciation to create the exactly opposite atmosphere for investment. Following its introduction as an anti-inflation measure in 1951, investment in the affected areas dropped appreciably and when the policy was discontinued at the end of 1952, a definite reversal took effect. A 28%

increase in these same areas was recorded in 1953. A breakdown of the figures for both the accelerated and deferred depreciation schemes show that many small and medium-sized projects were affected. In summary, accelerated depreciation or capital cost allowances have been proven to be effective in encouraging capital investment. Similarly, inadequate write-offs discourage this type of activity so essential for our nation's continued development.

The Federal Government has recently put into effect four different tax incentive schemes. Two of them are in the nature of accelerated depreciation allowances and the other two are direct tax allowances.

We would like to examine each of these plans and assess their effectiveness as a stimulant in the expansion of industrial construction.

1. <u>Special Capital Cost Allowances New Products Program</u>

This plan is commonly known as the double depreciation allowance. Basically it allows firms who are manufacturing products which are:

(a) of a type not ordinarily produced in Canada

(b) of a type not ordinarily produced in a surplus manpower area or locality

to double the depreciation allowance on capital goods and equipment usually granted in the first depreciation year of the asset.

The manufacturer may apply the full amount of the special allowance in the first taxation year of

the asset or in either of the following two years. Alternatively, the special allowance can be applied or apportioned in any amounts over these three years.

The Canadian Construction Association welcomed this move by the Federal Government as a step in the right direction. However, the results as outlined below have not been encouraging.

Period April 1961 - Sept. 28 1962

	Applications Received Value of Assets	Approved Assets
New to Canada	$149.6 Million	$ 79.2 Million
New to Surplus Manpower areas	$106.7 Million	$105.6 Million
	$256.3 Million	$184.8 Million

This plan has obviously failed to provide the necessary incentives for industrial expansion in Canada. Although no figures are available, it is safe to assume that approximately 10% of the $185 Million will be allocated for industrial construction. This would represent only about 4 - 5% of the total outlay for construction by manufacturers. Further, considering that much of this capital outlay would have been made in any case it is obvious that this plan leaves a lot to be desired as an effective investment incentive program.

2. Re-Equipment and Modernization Allowance

This plan is distinct from and broader in application than the double depreciation plan. As it does not have the "not made" criterion no permit is required from the Department of Trade & Commerce. This

of course also means that no record is kept of the values of the assets approved under this plan and therefore no assessment can be made of its effectiveness to date.

Basically, it takes the form of a 50% increase in the rate of capital cost allowance on any capital expenditures which are in excess of the normal or ordinary capital expenditures. This increased allowance applied only for the year in which a new asset is required.

For purposes of implementation ordinarily capital expenditures are described as the aggregate of the amount spent for depreciable property acquired in the last taxation year and before June 21st, 1961 or the average for the three years prior to June 21st should this be the lower amount. If the taxpayer is new in business there is no base for assessing ordinary capital expenditures and therefore all eligible assets acquired in the period June 21st, 1961 to March 31st, 1963 will qualify for additional amounts.

This plan although broader in scope than that for double depreciation is still very restrictive in nature. It would appear to discriminate against firms who had enough faith in Canada to continue an even expansion program over the last few years. To realize fully the benefits of accelerated depreciation as an investment incentive the allowances must be applied on a much broader base.

3. Production Incentive

This incentive which became effective April 1st, 1962, consists of a cancellation of 50% of the tax

on the first $50,000 taxable income arising from increased sales and 25% of the tax on the taxable income arising from sales in excess of that figure.

4. Scientific Research Incentive

In order to encourage more research in Canada the Federal Government announced that commencing in April, 1962 taxpayers are permitted to deduct 150% of their increased expenditures on scientific research for industrial purposes when computing income for tax purposes.

The effectiveness of these last two incentive plans will not be known for some time. Honourable D.M. Fleming estimated that the production incentive plan will cost the Government some $50 million in tax revenue and the scientific research incentive plan, another $20 million. If these estimates are correct there would appear to be a small amount of additional capital available for industrial construction.

Conclusion

The level of business investment in 1961 was $1 billion below that of 1957. In order to recapture the 20% reduction involved and bolster capital investment in Canada still further to provide adequately for the nation's economic development, it is essential that truly effective investment incentives be introduced to achieve the desired and necessary results.

The Association has made a number of recommendations in this field that are believed to be appropriate for the solution of Canada's current problems.

In addition, special tax concessions, such as the three-year period of freedom from taxation granted to mining projects, could be made available to new businesses established in designated areas or in industries for which an expansion is particularly in the national interest.

Special attention is also drawn to the fact that Canadian income tax regulations concerning capital cost allowances do not take into consideration the fact that assets purchased to replace worn out equipment or structures frequently are subject to inflationary trends. Accordingly, companies often have to set aside replacement reserves in addition to the depreciation permitted for income tax purposes. In other words, it is not only necessary to provide for the cost of assets that have to be replaced but also for the increased replacement costs that are due to price changes. The U.K. investment allowances take this factor into consideration and the new U.S. depreciation regulations allow additional write-offs to companies who replace their assets more frequently than the averages set forth in the "guidelines" published by the Bureau of Internal Revenue. A similar recognition of this inflationary factor should be incorporated in the Canadian taxation regulations.

Whatever incentive is provided it should be expressed in terms that are sufficiently generous to obtain fast and large-scale reaction in the fields of industry and finance. The appointment of a Royal Commission on Taxation is welcomed but it is sincerely

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hoped that there will be no inclination on the part of the Federal Government to await its recommendations before introducing much needed investment incentives and other measures that are required to increase substantially Canada's capital investment program and its related employment opportunities.

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